

HALOZYME THERAPEUTICS INC  
Form 10-K  
March 02, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-32335

Halozyyme Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11388 Sorrento Valley Road,  
San Diego, California

(Address of principal executive offices)

(858) 794-8889

(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

Title of Each Class

Common Stock, \$0.001 Par Value

Securities registered under Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). “ Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2014 was approximately \$1.0 billion based on the closing price on the NASDAQ Global Select Market reported for such date. Shares of common stock held by each officer and director and by each person who is known to own 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 24, 2015, there were 126,704,135 shares of the registrant’s common stock issued, \$0.001 par value per share, and outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed subsequent to the date hereof with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant’s 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report.

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This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the “safe harbor” provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. All statements, other than statements of historical fact, included herein regarding our future product development and regulatory events and goals, product collaborations, our business intentions and financial estimates and results are forward-looking statements. Words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “think,” “may,” “could,” “will,” “would,” “should,” “continue,” “potential,” “likely,” “opportunity” and similar expressions and variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Annual Report. Additionally, statements concerning future matters such as the development or regulatory approval of new products, enhancements of existing products or technologies, third party performance under key collaboration agreements, revenue and expense levels and other statements regarding matters that are not historical are forward-looking statements.

Although forward-looking statements in this Annual Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under the heading “Risk Factors” in Part I, Item 1A below, as well as those discussed elsewhere in this Annual Report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report. Readers are urged to carefully review and consider the various disclosures made in this Annual Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

References to “Halozyme,” “the Company,” “we,” “us,” and “our” refer to Halozyme Therapeutics, Inc. and its wholly owned subsidiary, Halozyme, Inc., and Halozyme, Inc.'s wholly owned subsidiary, Halozyme Holdings Ltd. References to “Notes” refer to the Notes to Consolidated Financial Statements included herein (refer to Part II, Item 8).

## PART I

### Item 1. Business

#### Overview

Halozyme is seeking to translate our unique knowledge of the tumor microenvironment to create novel therapies that can improve cancer survival. Our research focuses on human enzymes that alter the extracellular matrix and tumor microenvironment. The extracellular matrix is a complex matrix of proteins and carbohydrates surrounding the cell that provides structural support in tissues and orchestrates many important biological activities, including cell migration, signaling and survival. Over many years, we have developed unique technology and scientific expertise enabling us to pursue this target-rich environment for the development of therapies.

Our proprietary enzymes can be used to facilitate the delivery of injected drugs and fluids, potentially enhancing the efficacy and the convenience of other drugs or can be used to alter abnormal tissue structures for clinical benefit. We have chosen to exploit our technology and expertise in a balanced way to modulate both risk and spend by: (1) developing our own proprietary products in therapeutic areas with significant unmet medical needs, with a focus on oncology, and (2) licensing our technology to biopharmaceutical companies to collaboratively develop products which combine our technology with the collaborators' proprietary compounds.

The majority of our approved product and product candidates are based on rHuPH20, our patented recombinant human hyaluronidase enzyme. rHuPH20 temporarily breaks down hyaluronic acid (HA), a naturally occurring substance that is a major component of the extracellular matrix in tissues throughout the body such as skin and cartilage. We believe this temporary degradation creates an opportunistic window for the improved subcutaneous delivery of injectable biologics, such as monoclonal antibodies and other large therapeutic molecules, as well as small molecules and fluids. We refer to the application of rHuPH20 to facilitate the delivery of other drugs or fluids as Enhance<sup>™</sup> technology. rHuPH20 is also the active ingredient in our first commercially approved product, Hylenex<sup>®</sup> recombinant.



Our proprietary development pipeline consists primarily of clinical stage product candidates in oncology and diabetes. Our lead oncology program is PEGPH20 (PEGylated recombinant human hyaluronidase), a new molecular entity, under development for the systemic treatment of tumors that accumulate HA. When HA accumulates in a tumor, it can cause higher pressure in the tumor, reducing blood flow into the tumor and with that, reduced access of cancer therapies to the tumor. PEGPH20 works by temporarily degrading HA surrounding some cancer cells and results in reduced pressure and increased blood flow to the cancer with increased amounts of anticancer treatments administered concomitantly gaining access to the tumor. We are currently in Phase 2 clinical testing for PEGPH20 in metastatic pancreatic cancer (Study 109-202), and we have recently initiated a clinical trial in non-small cell lung cancer (Study 107-201). We have also been investigating Hylenex recombinant for use as pre-treatment in patients with Type 1 diabetes using pumps.

Our recent receipt of Fast Track and Orphan Drug designations for PEGPH20, new pre-clinical data further supporting the pan-tumor potential for PEGPH20 and investigator interest in both pancreatic and lung cancer trials have confirmed PEGPH20 as our priority product candidate for investment. As a result of ongoing evaluations to confirm and focus on the highest value opportunities, we have made the decision to seek collaborations with third parties or explore other strategic alternatives in order to exploit our diabetes and dermatology programs.

Regarding Enhance, we currently have collaborations with F. Hoffmann-La Roche, Ltd. and Hoffmann-La Roche, Inc. (Roche), Baxter Healthcare Corporation (Baxter), Pfizer Inc. (Pfizer) and Janssen Biotech, Inc. (Janssen), with one product approved in the U.S. and three products approved for marketing in Europe from which we are receiving royalties and several others at various stages of development.

Future revenues from the sales and/or royalties of our product candidates which have not been approved or have recently been approved will depend on the ability of Halozyme and our collaborators to develop, manufacture, secure regulatory approvals for and commercialize the product candidates. We have incurred net operating losses each year since inception, with an accumulated deficit of approximately \$450.4 million as of December 31, 2014.

Our principal offices and research facilities are located at 11388 Sorrento Valley Road, San Diego, California 92121. Our telephone number is (858) 794-8889 and our e-mail address is [info@halozyme.com](mailto:info@halozyme.com). Our website address is [www.halozyme.com](http://www.halozyme.com). Information found on, or accessible through, our website is not a part of, and is not incorporated into, this Annual Report on Form 10-K. Our periodic and current reports that we filed with the SEC are available on our website at [www.halozyme.com](http://www.halozyme.com), free of charge, as soon as reasonably practicable after we have electronically filed such material with, or furnished them to, the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports. Further copies of these reports are located at the SEC's Public Reference Room at 100 F Street, N.W., Washington, D.C. 20549, and online at <http://www.sec.gov>.

#### Technology

The majority of our approved product and product candidates are based on rHuPH20, a patented recombinant human hyaluronidase enzyme. rHuPH20 temporarily breaks down HA - a naturally occurring substance that is a major component of the extracellular matrix in tissues throughout the body such as skin and cartilage. We believe this temporary degradation creates an opportunistic window for the improved subcutaneous delivery of injectable biologics, such as monoclonal antibodies and other large therapeutic molecules, as well as small molecules and fluids. The HA reconstitutes its normal density within several days and, therefore, we anticipate that any effect of rHuPH20 on the architecture of the subcutaneous space is temporary. rHuPH20 can thus be applied as a drug delivery platform to increase dispersion and absorption of other injected drugs and fluids that are injected under the skin or in the muscle thereby enhancing efficacy or convenience. For example, rHuPH20 can be used to convert drugs that must be delivered intravenously into subcutaneous injections or to reduce the number of subcutaneous injections needed for effective therapy. We refer to the application of rHuPH20 to facilitate the delivery of other drugs or fluids as Enhance technology. rHuPH20 is also the active ingredient in our first commercially approved product, Hylenex recombinant. Additionally, we are expanding our scientific work to develop other enzymes and agents that target the extracellular matrix's unique aspects, giving rise to potentially new molecular entities with a particular focus on oncology. For example, we are developing a PEGylated version of the rHuPH20 enzyme (PEGPH20), that lasts for an extended period in the bloodstream, and may therefore better target solid tumors that accumulate HA by degrading the

surrounding HA and reducing the interstitial fluid pressure within malignant tumors to allow better penetration by co-administered agents.

### Strategy

During the fourth quarter of 2014, we affirmed our strategy of focusing on developing our PEGPH20 product candidate for oncology as well as entering into collaborations for Enhance Technology. This business model allows for growth in which revenue garnered from collaboration products helps fund our investment in PEGPH20 clinical development, with the goal of a future product approval that will support sustained growth.

Key aspects of our corporate strategy include the following:

- Focus on developing PEGPH20 our investigational new drug candidate in multiple different tumors that accumulate high levels of HA. PEGPH20 is in phase 2 development in metastatic pancreatic cancer and in phase 1 development in Non-Small Cell Lung Cancer. Over time it is our goal to study additional types of cancer and to advance this program toward regulatory approval and commercial launch.

Focus on Enhance collaborations. We currently have four collaborations with three current product approvals and additional product candidates being evaluated for development. We intend to work with our existing collaborators to expand our collaborations to add new targets and product candidates under the terms of the operative agreements. In addition, we will continue our efforts to enter into new collaborations to further exploit our technology and derive value therefrom.

### Product and Product Candidates

We have one marketed proprietary product and multiple proprietary product candidates targeting several indications in various stages of development. The following table summarizes our proprietary product and product candidates as well as products and product candidates under development with our collaborators:



### Proprietary Pipeline

#### Hylenex Recombinant (hyaluronidase human injection)

Hylenex recombinant is a formulation of rHuPH20 that has received FDA approval to facilitate subcutaneous fluid administration for achieving hydration, to increase the dispersion and absorption of other injected drugs and, in subcutaneous urography, to improve resorption of radiopaque agents. Hylenex recombinant is currently the number one prescribed branded hyaluronidase.

#### PEGPH20

We are developing PEGPH20 as a candidate for the systemic treatment of tumors that accumulate HA in combination with currently approved cancer therapies. 'PEG' refers to the attachment of polyethylene glycol to rHuPH20, thereby creating PEGPH20. One of the novel properties of PEGPH20 is that it lasts for an extended duration in the bloodstream (one to two days) and, therefore, can be used to maintain therapeutic effect to treat systemic disease.

Cancer malignancies, including pancreatic, lung, breast, colon and prostate cancers, often accumulate high levels of HA and therefore we believe that PEGPH20 has the potential to help patients with these types of cancer when used with currently approved cancer therapies. Among solid tumors, pancreatic ductal adenocarcinoma has been reported to be associated with the highest frequency of HA accumulation.

Over 100,000 patients in the U.S. and EU are diagnosed with pancreatic cancer annually and are frequently diagnosed in late stage of the disease. The pathologic accumulation of HA, along with other matrix components, creates a unique microenvironment for the growth of tumor cells compared to normal cells. We believe that depleting the HA component of the tumor microenvironment with PEGPH20 remodels the tumor microenvironment, resulting in tumor growth inhibition. Removal of HA from the tumor microenvironment results in expansion of previously constricted blood vessels to allow increased blood flow, increasing the access of activated immune cells and factors in the blood into the tumor micro environment. If PEGPH20 is administered in conjunction with other anti-cancer therapies, the increase in blood flow may allow anti-cancer therapies to have greater access to the tumor, which may enhance the treatment effect of therapeutic modalities like chemotherapies, monoclonal antibodies and other agents.

#### Study Halo 109-201:

In January 2015, we presented the final results from Study 109-201, a multi-center, international open label dose escalation Phase 1b clinical study of PEGPH20 in combination with gemcitabine for the treatment of patients with stage IV metastatic pancreatic cancer at the 2015 Gastrointestinal Cancers Symposium (also known as ASCO-GI meeting). This study enrolled 28 patients with previously untreated stage IV pancreatic ductal adenocarcinoma. Patients were treated with one of three doses of PEGPH20 (1.0, 1.6 and 3.0  $\mu\text{g}/\text{kg}$  twice weekly for four weeks, then weekly thereafter) in combination with gemcitabine 1000 mg/m<sup>2</sup> administered intravenously. In this study, the confirmed overall response rate (complete response + partial response confirmed on a second scan as assessed by an independent radiology review) was 29 percent (7 of 24 patients) for those treated at therapeutic dose levels of PEGPH20 (1.6 and 3.0  $\mu\text{g}/\text{kg}$ ). Median progression free survival (PFS) was 154 days (95% CI, 50-166) in the efficacy-evaluable population (n = 24). Among efficacy-evaluable patients with baseline tumor HA staining (n = 17), the median PFS in patients with high baseline tumor HA staining (6/17 patients) was substantially longer, 219 days, than in the patients with low baseline tumor HA staining (11/17 patients), 108 days. Median overall survival (OS) was 200 days (95% CI, 123-370) in the efficacy-evaluable population (n = 24). Among efficacy-evaluable patients with baseline tumor HA staining (n = 17), the median OS in patients with high baseline tumor HA staining (6/17 patients) was substantially longer, 395 days, than in the patients with low baseline tumor HA staining (11/17 patients), 174 days. The most common treatment-emergent adverse events (occurring in  $\geq 15\%$  of patients) were peripheral edema, muscle spasms, thrombocytopenia, fatigue, myalgia, anemia, and nausea. Thromboembolic events were reported in 8 patients (28.6%) and musculoskeletal events were reported in 21 patients (75%) which were generally grade 1/2 in severity.

Study Halo 109-202:

In the second quarter of 2013, we initiated Study 109-202, a Phase 2 multicenter randomized clinical trial evaluating PEGPH20 as a first-line therapy for patients with stage IV metastatic pancreatic cancer. The study was designed to enroll patients who would receive gemcitabine and nab-paclitaxel (ABRAXANE®) either with or without PEGPH20. The primary endpoint is to measure the improvement in progression-free survival in patients receiving PEGPH20 plus gemcitabine and nab-paclitaxel compared to those who are receiving gemcitabine and nab-paclitaxel alone. In April 2014, after 146 patients had been enrolled, the trial was put on clinical hold by Halozyme and the FDA to assess a question raised by the Data Monitoring Committee regarding a possible difference in the thromboembolic event rate between the group of patients treated with PEGPH20, nab-paclitaxel and gemcitabine (PAG arm) versus the group of patients treated with nab-paclitaxel and gemcitabine without PEGPH20 (AG arm). This portion of the study and patients in this portion are now referred to as Stage 1. It should be noted that at the time of the clinical hold all patients remaining in the study continued on gemcitabine and nab-paclitaxel. In July 2014, the Study 109-202 was reinitiated (Stage 2) under a revised protocol, which excludes patients that are expected to be at a greater risk for thromboembolic events, provides for prophylaxis of all patients in both arms of the study with low molecular weight heparin, and adds evaluation of the thromboembolic event rate in Stage 2 patients compared with Stage 1 as a co-primary end point. Stage 2 of Study 109-202 is designed to enroll an additional 114 patients, to add to the 146 patients already accrued in the clinical trial, with a 2:1 randomization for PAG compared to AG.

In January 2015, we disclosed initial efficacy and safety data from an interim assessment of Stage 1 of Study 109-202. In the safety evaluable population, i.e. patients who had received at least one dose of study drugs in test or comparator arm, of 135 patients (74 in PAG arm, 61 in AG arm), the RECIST 1.1 Objective Response Rate, based on patient data through April 9, 2014, was 34% (25/74 patients) in the PAG arm and 23% in the AG arm (14/61 patients) (P=0.17).

Among the safety evaluable patients with baseline HA staining and at least one protocol specified post base line scan after two cycles of study drug to assess tumor response (62 patients), the objective response rate was 60% in the PAG arm (21/35 patients), and 37% in the AG arm (10/27 patients) (P=0.09). In patients with high base line tumor staining for HA the objective response rate was 71% in the PAG arm (12/17 patients), and 29% in the AG arm (5/17 patients) (P=0.016). To assess PFS data for all Stage 1 patients who had received at least one dose of drug and had a base line HA analysis (106 patients), data was evaluated through December 9, 2014 to allow for sufficient follow up duration. Per the description above, patients in the PAG arm all discontinued PEGPH20 in April and only a portion restarted PEGPH20 in July 2014 upon the lift of the clinical hold. The PFS in this population was 5.5 months in the PAG arm vs 4.8 months in the AG arm (p=0.086). In patients with high base line tumor staining for HA, the PFS was 9.2 months in the PAG arm (12/25 patients) vs 4.3 months in the AG arm (15/23 patients) (P=0.031).

We and the data monitoring committee for Study 109-202 continue to closely monitor the occurrence of thromboembolic events in enrolled patients after the revision to the protocol. The revised protocol includes pre-specified analyses to evaluate the rate of thromboembolic events, and Study 109-202 may be halted again if the protocol changes do not result in a reduction of thromboembolic events in accordance with the pre-specified analyses in the protocol.

SWOG Study S1313:

In October 2013, SWOG, a cancer research cooperative group of more than 4,000 researchers in over 500 institutions around the world, initiated a 144 patient Phase 1b/2 randomized clinical trial in some of their study centers, examining PEGPH20 in combination with modified FOLFIRINOX chemotherapy (mFOLFIRINOX) compared to mFOLFIRINOX treatment alone in patients with metastatic pancreatic adenocarcinoma (funded by the National Cancer Institute). This study was also placed on clinical hold temporarily at the time of the hold on Study 109-202. In September 2014, the FDA removed the clinical hold on patient enrollment and dosing of PEGPH20 in this SWOG cooperative study. The study has resumed under a revised protocol, and patient enrollment is continuing. As with Study 109-202, the occurrence of thromboembolic events will be closely monitored in enrolled patients, and the continuation of this study may be halted again in accordance with event rate rules established in the protocol, or for other safety reasons.

Other indications outside of pancreatic cancer:

Study HALO 107-201, PRIMAL Study: In December 2014, we initiated a Phase 1b/2 trial, to evaluate PEGPH20 in second line in combination with docetaxel (Taxotere<sup>®</sup>) in Non-Small Cell Lung Cancer (NSCLC) patients. In this study, we expect to evaluate and identify the dose, dosing regimen and safety of PEGPH20 plus docetaxel in previously treated patients with NSCLC. Upon identification of the dose and dosing regimen, we plan to expand the trial to evaluate safety and efficacy.

Study HALO 107-101, the immuno-oncology trial: In the second half of 2015, we plan to initiate an immuno-oncology trial, exploring the combination of PEGPH20 and an immune-oncology agent such as a PD1/PDL1 inhibitor. We expect to evaluate and identify the dose and safety of PEGPH20 plus the immune-oncology agent prior to embarking on expansion into multiple tumors including NSCLC and Gastric cancers.

Regulatory:

In September 2014, the FDA granted Fast Track designation for our program investigating PEGPH20 in combination with gemcitabine and nab-paclitaxel for the treatment of patients with metastatic pancreatic cancer to demonstrate an improvement in overall survival. The Fast Track designation process was developed by the FDA to facilitate the development, and expedite the review of drugs to treat serious or life-threatening diseases and address unmet medical needs.

In October 2014, the FDA granted Orphan Drug designation for PEGPH20 for the treatment of pancreatic cancer. The FDA Office of Orphan Products Development mission is to advance the evaluation and development of products (drugs, biologics, devices, or medical foods) that demonstrate promise for the diagnosis and/or treatment of rare diseases or conditions. In December 2014, the European Committee for Orphan Medicinal Products of the EMA designated PEGPH20 an orphan medicinal product for the treatment of pancreatic cancer.

In the first quarter of 2015, we plan to meet with the Health authorities in the U.S., and subsequently in Europe, to discuss a potential registration seeking study in stage IV metastatic pancreatic cancer patients whose tumors are determined to have high levels of HA accumulation. In the first half of 2015, we also plan to engage the health authorities for development of a companion diagnostic agent for detection and qualification of hyaluronan in the tumor tissue of cancer patients.

In October 2014, we announced the issuance of U.S. Patent No. 8,846,034 claiming methods for selecting a subject for treatment of a hyaluronan-associated disease with an anti-hyaluronan agent, such as PEGPH20, as well as diagnostic agents for the detection and quantification of hyaluronan in a biological sample in patients.

Ultrafast Insulin Program Evaluation of rHuPH20 and Hylenex in Patients with Diabetes

Two distinct opportunities exist for the use of rHuPH20 and Hylenex recombinant in diabetes. We intend to seek to enter into collaborations with third parties or explore other strategic alternatives in order to exploit these opportunities. The first opportunity, Continuous Subcutaneous Insulin Infusion (CSII), is focused on assessing the effects of pre-treating the insulin infusion site with Hylenex recombinant at the time of infusion site change (once every 3 days). Insulin pump therapy is growing in the U.S. among patients with type 1 and type 2 diabetes and the focus of our program is type 1. We believe that the pre-treatment of the infusion site with Hylenex recombinant could result in faster onset and shorter duration of insulin action.

In the first quarter of 2013, we initiated CONSISTENT 1, a clinical trial evaluating the safety and efficacy of Hylenex recombinant and a new formulation of Hylenex when used as pretreatment of the insulin infusion site in patients with type 1 diabetes. With enrollment completed in the third quarter of 2013, the trial has enrolled 456 patients with type 1 diabetes who were randomized 3:1 to either rapid acting analog insulin (RAI) delivered by CSII with Hylenex recombinant pretreatment of the infusion site or standard CSII using RAI alone. Subjects randomized to the Hylenex recombinant group were administered 150 units of Hylenex recombinant once every three days through each new infusion cannula, immediately prior to initiation of insulin delivery. In June 2014, we presented a scientific poster highlighting the CONSISTENT 1 trial results at the 74th Scientific Sessions of the American Diabetes Association in San Francisco. Data reported in the presentation showed that the study's primary endpoint of non-inferiority for A1C at six months between the use of Hylenex and the new formulation of Hylenex in comparison to no pre-treatment, was met. In addition to other trial data, the poster also presented data indicating that there was a potential reduction in the rate of some types of hypoglycemic events associated with the use of the Hylenex formulations in comparison to no pre-treatment. The most common treatment related adverse event in the Hylenex recombinant groups was mild infusion site discomfort. With this exception, adverse events were similar across the treatment and control groups.

In parallel with our clinical activities, we have been in dialog with the FDA regarding the requirements for updating the Hylenex recombinant label in a manner that would support future promotion in this indication. While discussions with the FDA are ongoing, we have learned that the FDA will likely request additional clinical data for a label update, translating to potentially higher projected costs and longer time to market than we had originally anticipated. We are continuing to seek clarity with the FDA on what data will be required, if any. In addition, we determined in the fourth quarter 2014 that with all patients having completed 12 months on the trial, we did not need additional data contribution from the second year of the CONSISTENT 1 trial, and we stopped the trial and are currently summarizing the data for all patients treated for 12 months. After evaluating our options, we have decided that except for any costs in connection with closing out the CONSISTENT 1 trial, we do not intend to incur substantial additional expenses for the program.

The second opportunity, Multiple Daily Injection (MDI), is to combine rHuPH20 with an FDA approved RAI, e.g., insulin lispro (Humalog®) (Lispro-PH20), insulin aspart (Novolog®) (Aspart-PH20) and insulin glulisine (Apidra®) (Glulisine-PH20), (each such combination, analog-PH20), to seek to accelerate their action. A number of clinical trials investigating the various attributes of our product candidates have been completed, with the last study completed in 2011. Since then we have only conducted limited additional development work with this opportunity.

Data from two treatment studies - one in type 1 diabetes patients and one in type 2 diabetes patients has been published. Copies of these publications can be found at

<http://www.halozyyme.com/Technology/Journals-Abstracts-And-Posters/default.aspx>. Both studies met their primary endpoints of A1C non-inferiority and improved post-prandial glucose control compared to patients who were treated with RAI alone. Additionally, data from the type 1 diabetes treatment study indicated that Analog-PH20 formulations reduced hypoglycemia compared to RAI alone.

#### Collaborations

##### Roche Collaboration

In December 2006, we and Roche entered into an agreement under which Roche obtained a worldwide, exclusive license to develop and commercialize product combinations of rHuPH20 with up to thirteen Roche target compounds (the Roche Collaboration). Roche initially had the exclusive right to apply rHuPH20 to only three pre-defined Roche biologic targets with the option to exclusively develop and commercialize rHuPH20 with ten additional targets. As of December 31, 2014, Roche has elected a total of five exclusive targets and retains the option to develop and commercialize rHuPH20 with three additional targets through the payment of annual license maintenance fees.

In September 2013, Roche launched a SC formulation of Herceptin (trastuzumab) (Herceptin SC) in Europe for the treatment of patients with HER2-positive breast cancer. This formulation utilizes our patented Enhance technology and is administered in two to five minutes, rather than 30 to 90 minutes with the standard intravenous form. Roche received European marketing approval for Herceptin SC in August 2013. The European Commission's approval was based on data from Roche's Phase 3 HannaH study which showed that the subcutaneous formulation of Herceptin was associated with comparable efficacy (pathological complete response, pCR) to Herceptin administered intravenously in women with HER2-positive early breast cancer and resulted in non-inferior trastuzumab plasma levels. Overall, the safety profile in both arms of the HannaH study was consistent with that expected from standard treatment with Herceptin and chemotherapy in this setting. No new safety signals were identified. Breast cancer is the most common cancer among women worldwide. Each year, about 1.4 million new cases of breast cancer are diagnosed worldwide, and over 450,000 women will die of the disease annually. In HER2-positive breast cancer, increased quantities of the human epidermal growth factor receptor 2 (HER2) are present on the surface of the tumor cells. This is known as "HER2 positivity" and affects approximately 15% to 20% of women with breast cancer. HER2-positive cancer is reported to be a particularly aggressive form of breast cancer.

In June 2014, Roche launched MabThera® SC in Europe for the treatment of patients with common forms of non-Hodgkin lymphoma (NHL). This formulation utilizes our patented Enhance technology and is administered in approximately five minutes compared to the approximately 2.5 hour infusion time for intravenous MabThera. The European Commission approved MabThera SC in March 2014. The European Commission's approval was based primarily on data from Roche's Phase 3 pivotal clinical studies, which was recently published in *The Lancet Oncology*. NHL is a type of cancer that affects lymphocytes (white blood cells). NHL represents approximately 85% of all lymphomas diagnosed and was responsible for approximately 200,000 annual deaths worldwide in 2012. Lymphomas are a cancer of the lymphatic system (composed of lymph vessels, lymph nodes and organs) which helps to keep the bodily fluid levels balanced and to defend the body against invasion by disease. Lymphoma develops when white blood cells (usually B-lymphocytes) in the lymph fluid become cancerous and begin to multiply and collect in the lymph nodes or lymphatic tissues such as the spleen. Some of these cells are released into the bloodstream and spread around the body, interfering with the body's production of healthy blood cells. Additional information about the Phase 3 Herceptin SC and Phase 3 MabThera SC clinical trials can be found at [www.clinicaltrials.gov](http://www.clinicaltrials.gov) and [www.roche-trials.com](http://www.roche-trials.com). Information available on these websites is not incorporated into this report.

#### Baxter Collaboration

In September 2007, we and Baxter entered into an agreement under which Baxter obtained a worldwide, exclusive license to develop and commercialize product combinations of rHuPH20 with GAMMAGARD LIQUID (HYQVIA) (the Baxter Collaboration). GAMMAGARD LIQUID is a current Baxter product that is indicated for the treatment of primary immunodeficiency disorders associated with defects in the immune system.

In October 2014, Baxter announced the launch and first shipments of Baxter's HYQVIA product for treatment of adult patients with primary immunodeficiency in the U.S. HYQVIA was approved by the FDA in September 2014 and is the first subcutaneous IG treatment approved for adult primary immunodeficiency patients with a dosing regimen requiring only one infusion up to once per month (every three to four weeks) and one injection site per infusion in most patients, to deliver a full therapeutic dose of IG. The majority of primary immunodeficiency patients today receive intravenous infusions in a doctor's office or infusion center, and current subcutaneous IG treatments require weekly or bi-weekly treatment with multiple infusion sites per treatment. The FDA's approval of HYQVIA is a significant milestone for us as it represents the first U.S. approved BLA which utilizes our rHuPH20 platform.

In May 2013, the European Commission granted Baxter marketing authorization in all EU Member States for the use of HYQVIA (solution for subcutaneous use) as replacement therapy for adult patients with primary and secondary immunodeficiencies. Baxter launched HYQVIA in the first EU country in July 2013 and in additional EU countries in the second half of 2013 and in 2014.

#### Pfizer Collaboration

In December 2012, we and Pfizer entered into a collaboration and license agreement, under which Pfizer has the worldwide license to develop and commercialize products combining our rHuPH20 enzyme with Pfizer proprietary biologics directed to up to six targets in primary care and specialty care indications. Targets may be selected on an exclusive or non-exclusive basis. In September 2013, Pfizer elected the fourth therapeutic target on an exclusive basis. In December 2013, Pfizer announced that one of the targets is proprotein convertase subtilisin/kexin type 9, also known as PCSK9. The PCSK9 gene provides instructions for making a protein that helps regulate the amount of cholesterol in the bloodstream. Pfizer is also developing Rivipansel directed to another target under the collaboration to treat vaso-occlusive crisis in individuals with sickle cell disease.

#### Janssen Collaboration

In December 2014, we and Janssen entered into a collaboration and license agreement, under which Janssen has the worldwide license to develop and commercialize products combining our rHuPH20 enzyme with Janssen proprietary biologics directed to up to five targets. Targets may be selected on an exclusive or non-exclusive basis. Janssen has elected one undisclosed target on an exclusive basis.

For a further discussion of the material terms of our collaboration agreements, refer to Note 4, Collaborative Agreements, to our consolidated financial statements.



## Customers

The following table indicates the percentage of total revenues in excess of 10% with any single customer:

|         | Year Ended December 31, |      |      |   |
|---------|-------------------------|------|------|---|
|         | 2014                    | 2013 | 2012 |   |
| Roche   | 57                      | % 64 | % 45 | % |
| Janssen | 20                      | % —  | —    |   |
| Baxter  | 3                       | % 10 | % 17 | % |
| Pfizer  | 1                       | % 4  | % 22 | % |

For additional information regarding our revenues from external customers, refer to Note 2, Summary of Significant Accounting Policies — Concentrations of Credit Risk, Sources of Supply and Significant Customers.

## Patents and Proprietary Rights

Patents and other proprietary rights are essential to our business. Our success will depend in part on our ability to obtain patent protection for our inventions, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. Our strategy is to actively pursue patent protection in the U.S. and certain foreign jurisdictions for technology that we believe to be proprietary to us and that offers us a potential competitive advantage. Our patent portfolio includes 20 issued patents in the U.S., 80 issued patents in Europe and other countries in the world and a number of pending patent applications. In general, patents have a term of 20 years from the application filing date or earlier claimed priority date. Our issued patents will expire between 2022 and 2032. We have multiple patents and patent applications throughout the world pertaining to our recombinant human hyaluronidase and methods of use and manufacture, including an issued U.S. patent which expires in 2027 and an issued European patent which expires in 2024, which we believe cover the products and product candidates under our existing collaborations, Hylenex recombinant, PEGPH20 and our endocrinology product candidates. In addition, we have, under prosecution throughout the world, multiple patent applications that relate specifically to individual product candidates under development, the expiration of which can only be definitely determined upon maturation into our issued patents. We believe our patent filings represent a barrier to entry for potential competitors looking to utilize these hyaluronidases. In addition to patents, we rely on unpatented trade secrets, proprietary know-how and continuing technological innovation. We seek protection of these trade secrets, proprietary know-how and innovation, in part, through confidentiality and proprietary information agreements. Our policy is to require our employees, directors, consultants, advisors, collaborators, outside scientific collaborators and sponsored researchers, other advisors and other individuals and entities to execute confidentiality agreements upon the start of employment, consulting or other contractual relationships with us. These agreements provide that all confidential information developed or made known to the individual or entity during the course of the relationship is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees and some other parties, the agreements provide that all inventions conceived by the individual will be our exclusive property. Despite the use of these agreements and our efforts to protect our intellectual property, there will always be a risk of unauthorized use or disclosure of information. Furthermore, our trade secrets may otherwise become known to, or be independently developed by, our competitors. We also file trademark applications to protect the names of our products and product candidates. These applications may not mature to registration and may be challenged by third parties. We are pursuing trademark protection in a number of different countries around the world. There can be no assurances that our registered or unregistered trademarks or trade names will not infringe on rights of third parties or will be acceptable to regulatory agencies.

## Research and Development Activities

Our research and development expenses consist primarily of costs associated with the development and manufacturing of our product candidates, compensation and other expenses for research and development personnel, supplies and materials, costs for consultants and related contract research, clinical trials, facility costs and amortization and depreciation. We charge all research and development expenses to operations as they are incurred. Our research and development activities are primarily focused on the development of our various product candidates.





Due to the uncertainty in obtaining the FDA and other regulatory approvals, our reliance on third parties and competitive pressures, we are unable to estimate with any certainty the additional costs we will incur in the continued development of our proprietary product candidates for commercialization. However, we expect our research and development expenses for PEGPH20 to increase as our program advances into additional tumors and later stages of clinical development.

#### Manufacturing

We do not have our own manufacturing facility for our product and product candidates, or their active pharmaceutical ingredient (API) or bulk forms, or the capability to package our product. We have engaged third parties to manufacture bulk rHuPH20 and our product Hylenex recombinant.

We have existing supply agreements with contract manufacturing organizations Avid Bioservices, Inc. (Avid) and Cook Pharmica LLC (Cook) to produce supplies of bulk rHuPH20. These manufacturers each produce bulk rHuPH20 under current Good Manufacturing Practices (cGMP) for clinical and commercial uses. Avid and Cook currently produce bulk rHuPH20 for use in Hylenex recombinant and our other collaboration products and product candidates. We rely on their ability to successfully manufacture these batches according to product specifications. Cook has limited experience manufacturing bulk rHuPH20. In addition, we have been working to scale-up, validate and qualify Cook as a manufacturer of bulk rHuPH20 for use in the product and product candidates under the Roche collaboration. To date, Cook has not been submitted to the European regulatory authorities by Roche as an approved manufacturer for Herceptin SC and MabThera SC. It is essential for our business for Cook and Avid to (i) retain their status as cGMP-approved manufacturing facilities; (ii) to successfully scale up bulk rHuPH20 production; and/or (iii) manufacture the bulk rHuPH20 required by us and our collaborators for use in our proprietary and collaboration products and product candidates. In addition to supply obligations, Avid and Cook will also provide support for data and information used in the chemistry, manufacturing and controls sections for FDA and other regulatory filings.

We have a commercial manufacturing and supply agreement with Baxter, a cGMP-approved manufacturing facility, under which Baxter provides the final fill and finishing steps in the production process of Hylenex recombinant. Under our commercial manufacturing and supply agreement with Baxter, Baxter has agreed to fill and finish Hylenex recombinant product for us until December 31, 2017, subject to further extensions in accordance with the terms of the agreement. In June 2011, we entered into a services agreement with another third party manufacturer, Patheon Manufacturing Services, LLC (Patheon), for the technology transfer and manufacture, fill, finish or packaging of Hylenex recombinant. In October 2014, we received regulatory approval from the FDA for Patheon to manufacture Hylenex recombinant. In December 2014, we entered into a manufacturing services agreement with Patheon under which Patheon will provide the final fill and finishing steps in the production process of Hylenex recombinant. Under our commercial services agreement with Patheon, Patheon has agreed to fill and finish Hylenex recombinant product for us until December 31, 2019, subject to further extensions in accordance with the terms of the agreement. In 2015, we will begin to transition our manufacturing supply to Patheon to achieve higher capacity and lower cost of goods.

#### Sales, Marketing and Distribution

##### HYLENEX Recombinant

Our commercial activities currently focus on Hylenex recombinant. We have a team of sales specialists that provide hospital and surgery center customers with the information about Hylenex recombinant and information needed to obtain formulary approval for, and support utilization of, Hylenex recombinant. Our commercial activities also include marketing and related services and commercial support services such as commercial operations, managed markets and commercial analytics. We also employ third-party vendors, such as advertising agencies, market research firms and suppliers of marketing and other sales support related services to assist with our commercial activities.

We sell Hylenex recombinant in the U.S. to wholesale distributors, who sell to hospitals, ambulatory surgery centers and other end-users. We have engaged Integrated Commercial Solutions (ICS), a division of AmerisourceBergen Specialty Group, a subsidiary of AmerisourceBergen, to act as our exclusive distributor for commercial shipment and distribution of Hylenex recombinant to our customers in the United States. In addition to distribution services, ICS provides us with other key services related to logistics, warehousing, returns and inventory management, contract administration and chargebacks processing and accounts receivable management. In addition, we utilize third parties to perform various other services for us relating to regulatory



monitoring, including call center management, adverse event reporting, safety database management and other product maintenance services.

#### Competition

The pharmaceutical industry is characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary therapeutics. We face competition from a number of sources, some of which may target the same indications as our product or product candidates, including large pharmaceutical companies, smaller pharmaceutical companies, biotechnology companies, academic institutions, government agencies and private and public research institutions, many of which have greater financial resources, drug development experience, sales and marketing capabilities, including larger, well established sales forces, manufacturing capabilities, experience in obtaining regulatory approvals for product candidates and other resources than us. We face competition not only in the commercialization of Hylenex recombinant, but also for the in-licensing or acquisition of additional product candidates, and the out-licensing of our Enhanze technology. In addition, our collaborators face competition in the commercialization of the product candidates for which the collaborators seek marketing approval from the FDA or other regulatory authorities.

#### HYLENEX Recombinant

Hylenex recombinant is currently the only FDA-approved recombinant human hyaluronidase on the market. The competitors for Hylenex recombinant include, but are not limited to, Bausch & Lomb Inc.'s FDA-approved product, Vitrase®, an ovine (ram) hyaluronidase, and Amphastar Pharmaceuticals, Inc.'s product, Amphadase®, a bovine (bull) hyaluronidase, which is not currently on the market. In addition, some commercial pharmacies compound hyaluronidase preparations for institutions and physicians even though compounded preparations are not FDA-approved products.

#### Government Regulations

The FDA and comparable regulatory agencies in foreign countries regulate the manufacture and sale of the pharmaceutical products that we have developed or currently are developing. The FDA has established guidelines and safety standards that are applicable to the laboratory and preclinical evaluation and clinical investigation of therapeutic products and stringent regulations that govern the manufacture and sale of these products. The process of obtaining regulatory approval for a new therapeutic product usually requires a significant amount of time and substantial resources. The steps typically required before a product can be introduced for human use include:

- animal pharmacology studies to obtain preliminary information on the safety and efficacy of a drug; or
- laboratory and preclinical evaluation in vitro and in vivo including extensive toxicology studies.

The results of these laboratory and preclinical studies may be submitted to the FDA as part of an IND application. The sponsor of an IND application may commence human testing of the compound 30 days after submission of the IND, unless notified to the contrary by the FDA.

The clinical testing program for a new drug typically involves three phases:

- Phase 1 investigations are generally conducted in healthy subjects (in certain instances, Phase 1 studies that determine the maximum tolerated dose and initial safety of the product candidate are performed in patients with the disease);
- Phase 2 studies are conducted in limited numbers of subjects with the disease or condition to be treated and are aimed at determining the most effective dose and schedule of administration, evaluating both safety and whether the product demonstrates therapeutic effectiveness against the disease; and
- Phase 3 studies involve large, well-controlled investigations in diseased subjects and are aimed at verifying the safety and effectiveness of the drug.

Data from all clinical studies, as well as all laboratory and preclinical studies and evidence of product quality, are typically submitted to the FDA in a new drug application (NDA). The results of the preclinical and clinical testing of a biologic product candidate are submitted to the FDA in the form of a BLA, for evaluation to determine whether the product candidate may be approved for commercial sale. In responding to a BLA or NDA, the FDA may grant marketing approval, request additional information, or deny the application. Although the FDA's requirements for clinical trials are well established and we believe that we have planned and conducted our clinical trials in accordance with the FDA's applicable regulations and guidelines, these requirements, including requirements relating to testing the safety of drug candidates, may be subject to change as a result of recent announcements regarding safety problems with approved drugs. Additionally, we could be required to conduct additional trials beyond what we had planned due to the FDA's safety and/or efficacy concerns or due to differing interpretations of the meaning of our clinical data. (See Part I, Item 1A, Risk Factors.)

The FDA's Center for Drug Evaluation and Research must approve an NDA and the FDA's Center for Biologics Evaluation and Research must approve a BLA for a drug before it may be marketed in the United States. If we begin to market our proposed products for commercial sale in the U.S., any manufacturing operations that may be established in or outside the U.S. will also be subject to rigorous regulation, including compliance with cGMP. We also may be subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substance Control Act, the Export Control Act and other present and future laws of general application. In addition, the handling, care and use of laboratory animals are subject to the Guidelines for the Humane Use and Care of Laboratory Animals published by the National Institutes of Health.

Regulatory obligations continue post-approval, and include the reporting of adverse events when a drug is utilized in the broader patient population. Promotion and marketing of drugs is also strictly regulated, with penalties imposed for violations of FDA regulations, the Lanham Act and other federal and state laws, including the federal anti-kickback statute.

We currently intend to continue to seek, directly or through our collaborators, approval to market our products and product candidates in foreign countries, which may have regulatory processes that differ materially from those of the FDA. We anticipate that we will rely upon independent consultants to seek and gain approvals to market our proposed products in foreign countries or may rely on other pharmaceutical or biotechnology companies to license our proposed products. We cannot assure you that approvals to market any of our proposed products can be obtained in any country. Approval to market a product in any one foreign country does not necessarily indicate that approval can be obtained in other countries.

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the approval, manufacturing and marketing of drug products. In addition, FDA regulations and guidance are often revised or reinterpreted by the agency or reviewing courts in ways that may significantly affect our business and development of our product candidates and any products that we may commercialize. It is impossible to predict whether additional legislative changes will be enacted, or FDA regulations, guidance or interpretations changed, or what the impact of any such changes may be.

#### Segment Information

We operate our business as one segment, which includes all activities related to the research, development and commercialization of human enzymes. This segment also includes revenues and expenses related to (i) research and development activities conducted under our collaboration agreements with third parties and (ii) product sales of Hylenex recombinant. The chief operating decision-maker reviews the operating results on an aggregate basis and manages the operations as a single operating segment. We had no foreign based operations and no long-lived assets located in foreign countries as of and for the years ended December 31, 2014, 2013 and 2012. Refer to the Notes for additional financial information regarding our operating segment.

#### Executive Officers of the Registrant

Information concerning our executive officers, including their names, ages and certain biographical information can be found in Part III, Item 10, Directors, Executive Officers and Corporate Governance. This information is incorporated by reference into Part I of this report.



## Employees

As of February 24, 2015, we had 153 full-time employees. None of our employees are unionized and we believe our employee relations to be good.

## Item 1A. Risk Factors

### Risks Related To Our Business

We have generated only limited revenue from product sales to date; we have a history of net losses and negative cash flow, and we may never achieve or maintain profitability.

Relative to expenses incurred in our operations, we have generated only limited revenues from product sales, royalties, licensing fees, milestone payments, bulk rHuPH20 supply payments and research reimbursements to date and we may never generate sufficient revenues from future product sales, licensing fees and milestone payments to offset expenses. Even if we ultimately do achieve significant revenues from product sales, royalties, licensing fees, research reimbursements, bulk rHuPH20 supply payments and/or milestone payments, we expect to incur significant operating losses over the next few years. We have never been profitable, and we may never become profitable.

Through December 31, 2014, we have incurred aggregate net losses of approximately \$450.4 million.

If our product candidates do not receive and maintain regulatory approvals, or if approvals are not obtained in a timely manner, such failure or delay would substantially impair our ability to generate revenues.

Approval from the FDA or equivalent health authorities is necessary to manufacture and market pharmaceutical products in the U.S. and the other countries in which we anticipate doing business have similar requirements. The process for obtaining FDA and other regulatory approvals is extensive, time-consuming, risky and costly, and there is no guarantee that the FDA or other regulatory bodies will approve any applications that may be filed with respect to any of our product candidates, or that the timing of any such approval will be appropriate for the desired product launch schedule for a product candidate. We and our collaborators attempt to provide guidance as to the timing for the filing and acceptance of such regulatory approvals, but such filings and approvals may not occur when we or our collaborators expect, or at all. The FDA or other foreign regulatory agency may refuse or delay approval of our product candidates for failure to collect sufficient clinical or animal safety data and require us or our collaborators to conduct additional clinical or animal safety studies which may cause lengthy delays and increased costs to our programs. For example, we have been in dialog with the FDA regarding the regulatory pathway and data requirements for updating the label for Hylenex recombinant for use in CSII but do not have clarity to date. However, we have learned that additional clinical data will likely be required for a label update. The lack of clarity has hampered our ability to develop and commercialize this opportunity and may impede our future ability to identify a strategic partner willing to invest in future development, registration and commercialization. In addition, the approval of Baxter's HYQVIA BLA was delayed until we and Baxter provided additional preclinical data sufficient to address concerns regarding non-neutralizing antibodies to rHuPH20 that were detected in the registration trial. Although these antibodies have not been associated with any adverse clinical effects, and the HYQVIA BLA was approved by the FDA in September 2014, we cannot assure you that they will not arise and have an adverse impact on future development of products which include rHuPH20, future sales of Hylenex recombinant, our ability to enter into collaborations, or be raised by the FDA or other health authorities in connection with testing or approval of products including rHuPH20.

Only three of our collaboration product candidates and one of our proprietary products have been approved for commercialization. We have no proprietary product candidates currently in the regulatory approval process. We and our collaborators may not be successful in obtaining approvals for any potential products in a timely manner, or at all. Refer to the risk factor titled "Our proprietary and collaboration product candidates may not receive regulatory approvals or their development may be delayed for a variety of reasons, including unsuccessful clinical trials, regulatory requirements or safety concerns" for additional information relating to the approval of product candidates. Additionally, even with respect to products which have been approved for commercialization, in order to continue to manufacture and market pharmaceutical products, we or our collaborators must maintain our regulatory approvals. If we or any of our collaborators are unsuccessful in maintaining our regulatory approvals, our ability to generate revenues would be adversely affected.





Use of our product candidates or those of our collaborators could be associated with side effects or adverse events. As with most pharmaceutical products, use of our product candidates or those of our collaborators could be associated with side effects or adverse events which can vary in severity (from minor reactions to death) and frequency (infrequent or prevalent). Side effects or adverse events associated with the use of our product candidates or those of our collaborators may be observed at any time, including in clinical trials or when a product is commercialized, and any such side effects or adverse events may negatively affect our or our collaborators' ability to obtain or maintain regulatory approval or market our product candidates. Side effects such as toxicity or other safety issues associated with the use of our product candidates or those of our collaborators could require us or our collaborators to perform additional studies or halt development or sale of these product candidates or expose us to product liability lawsuits which will harm our business. We or our collaborators may be required by regulatory agencies to conduct additional animal or human studies regarding the safety and efficacy of our pharmaceutical product candidates which we have not planned or anticipated. Furthermore, there can be no assurance that we or our collaborators will resolve any issues related to any product related adverse events to the satisfaction of the FDA or any regulatory agency in a timely manner or ever, which could harm our business, prospects and financial condition. For example, in April 2014, a clinical hold was placed on patient enrollment and dosing of PEGPH20 in Study 202 as a result of a possible difference in the thromboembolic event rate that had been observed at that time in the trial between the group of patients treated with PEGPH20 versus the group of patients treated without PEGPH20. The clinical hold was lifted by FDA in June 2014, and we have resumed enrollment and dosing of PEGPH20 in Study 202 under a revised clinical protocol. We and the data monitoring committee for Study 202 continue to closely monitor the occurrence of thromboembolic events in enrolled patients after the protocol amendments. The continuation of Study 202 may be halted again if the protocol changes do not result in a reduction of thromboembolic events in accordance with event rate rules established in the protocol, or for other safety reasons.

If our contract manufacturers are unable to manufacture and supply to us bulk rHuPH20 in the quantity and quality required by us or our collaborators for use in our products and product candidates, our product development and commercialization efforts could be delayed or stopped and our collaborations could be damaged.

We have existing supply agreements with contract manufacturing organizations Avid Bioservices, Inc. (Avid) and Cook Pharmica LLC (Cook) to produce bulk rHuPH20. These manufacturers each produce bulk rHuPH20 under current cGMP for clinical uses. Avid and Cook currently produce bulk rHuPH20 for use in Hylenex recombinant and certain other collaboration products and product candidates. In addition to supply obligations, Avid and Cook will also provide support for the chemistry, manufacturing and controls sections for FDA and other regulatory filings. We rely on their ability to successfully manufacture these batches according to product specifications. Cook has relatively limited experience manufacturing bulk rHuPH20. In addition, we have been working to scale-up, validate and qualify Cook as a manufacturer of bulk rHuPH20 for use in the product and product candidates under the Roche collaboration. To date, Cook has not been submitted to the European regulatory authorities by Roche as an approved manufacturer for Herceptin SC and MabThera SC. If Cook is unable to obtain its status as an approved European manufacturing facility, or if either Avid or Cook: (i) is unable to retain its status as an FDA approved manufacturing facility; (ii) is unable to otherwise successfully scale up bulk rHuPH20 production to meet corporate or regulatory authority quality standards; or (iii) fails to manufacture and supply bulk rHuPH20 in the quantity and quality required by us or our collaborators for use in our proprietary and collaboration products and product candidates for any other reason, our business will be adversely affected. In addition, a significant change in such parties' business or financial condition could adversely affect their abilities to fulfill their contractual obligations to us. We have not established, and may not be able to establish, favorable arrangements with additional bulk rHuPH20 manufacturers and suppliers of the ingredients necessary to manufacture bulk rHuPH20 should the existing manufacturers and suppliers become unavailable or in the event that our existing manufacturers and suppliers are unable to adequately perform their responsibilities. We have attempted to mitigate the impact of supply interruption through the establishment of excess bulk rHuPH20 inventory where possible, but there can be no assurances that this safety stock will be maintained or that it will be sufficient to address any delays, interruptions or other problems experienced by Avid and/or Cook. Any delays, interruptions or other problems regarding the ability of Avid and/or Cook to supply bulk rHuPH20 on a timely basis could: (i) cause the delay of clinical trials or otherwise delay or prevent the regulatory approval of proprietary or

collaboration product candidates; (ii) delay or prevent the effective commercialization of proprietary or collaboration products; and/or (iii) cause us to breach contractual obligations to deliver bulk rHuPH20 to our collaborators. Such delays would likely damage our relationship with our collaborators under our key collaboration agreements, and they would have a material adverse effect on royalties and thus our business and financial condition.

If we or any party to a key collaboration agreement fails to perform material obligations under such agreement, or if a key collaboration agreement, is terminated for any reason, our business could significantly suffer.

We have entered into multiple collaboration agreements under which we may receive significant future payments in the form of milestone payments, target designation fees, maintenance fees and royalties. We are dependent on our collaborators to develop and commercialize product candidates subject to our collaborations in order for us to realize any financial benefits from these collaborations. Our collaborators may not devote the attention and resources to such efforts that we would to such efforts ourselves, change their promotional efforts or simultaneously develop and commercialize products in competition to those products we have licensed to them. Any of these actions could not be visible to us immediately and could negatively impact the benefits and revenue we receive from such collaboration. In addition, in the event that a party fails to perform under a key collaboration agreement, or if a key collaboration agreement is terminated, the reduction in anticipated revenues could delay or suspend our product development activities for some of our product candidates, as well as our commercialization efforts for some or all of our products. Specifically, the termination of a key collaboration agreement by one of our collaborators could materially impact our ability to enter into additional collaboration agreements with new collaborators on favorable terms, if at all. In certain circumstances, the termination of a key collaboration agreement would require us to revise our corporate strategy going forward and reevaluate the applications and value of our technology.

Most of our current proprietary and collaboration products and product candidates rely on the rHuPH20 enzyme, and any adverse development regarding rHuPH20 could substantially impact multiple areas of our business, including current and potential collaborations, as well as proprietary programs.

rHuPH20 is a key technological component of Enhance technology and our most advanced proprietary and collaboration products and product candidates, including the current and future products and product candidates under our Roche, Pfizer, Janssen and Baxter collaborations, our PEGPH20 program, our ultrafast insulin program and Hylenex recombinant. If there is an adverse development for rHuPH20 (e.g., an adverse regulatory determination relating to rHuPH20, if we are unable to obtain sufficient quantities of rHuPH20, if we are unable to obtain or maintain material proprietary rights to rHuPH20 or if we discover negative characteristics of rHuPH20), multiple areas of our business, including current and potential collaborations, as well as proprietary programs would be substantially impacted. For example, elevated anti-rHuPH20 antibody titers were detected in the registration trial for Baxter's HYQVIA product as well as in a former collaborator's product in a Phase 2 clinical trial with rHuPH20, but have not been associated, in either case, with any adverse events. We monitor for antibodies to rHuPH20 in our collaboration and proprietary programs, and although we do not believe at this time that the incidence of non-neutralizing anti-rHuPH20 antibodies in either the HYQVIA program or the former collaborator's program will have a significant impact on our other proprietary and other collaboration product candidates, there can be no assurance that there will not be other such occurrences in our other programs or that concerns regarding these antibodies will not also be raised by the FDA or other health authorities in the future, which could result in delays or discontinuations of our development or commercialization activities or deter entry into additional collaborations with third parties.

We routinely evaluate, and may modify, our business strategy and our strategic focus to only a few fields or applications of our technology which may increase or decrease the risk for potential negative impact of adverse developments.

We routinely evaluate our business strategy, and may modify this strategy in the future in light of our assessment of unmet medical needs, growth potential, resource requirements, regulatory issues, competition, risks and other factors. As a result of these strategic evaluations, we may focus our resources and efforts on one or a few programs or fields and may suspend or reduce our efforts on other programs and fields. For example, in the third quarter of 2014, we decided to focus our resources on advancing PEGPH20 and expanding utilization of our Enhance platform. While we believe these are applications with the greatest potential value, we have reduced the diversification of our programs and increased our dependence on the success of the areas we are pursuing. By focusing on one or a few areas, we increase the potential impact on us if one of those programs or product candidates does not successfully complete clinical trials, achieves commercial acceptance or meets expectations regarding sales and revenue. Our decision to focus on one or a few programs may also reduce the value of programs that are no longer within our principal strategic

focus, which could impair our ability to pursue collaborations or other strategic alternatives for those programs we are not pursuing.

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Our proprietary and collaboration product candidates may not receive regulatory approvals or their development may be delayed for a variety of reasons, including unsuccessful clinical trials, regulatory requirements or safety concerns. Clinical testing of pharmaceutical products is a long, expensive and uncertain process, and the failure or delay of a clinical trial can occur at any stage. Even if initial results of preclinical and nonclinical studies or clinical trial results are promising, we or our collaborators may obtain different results in subsequent trials or studies that fail to show the desired levels of safety and efficacy, or we may not, or our collaborators may not, obtain applicable regulatory approval for a variety of other reasons. Preclinical, nonclinical, and clinical trials for any of our proprietary or collaboration product candidates could be unsuccessful, which would delay or preclude regulatory approval and commercialization of the product candidates. In the U.S. and other jurisdictions, regulatory approval can be delayed, limited or not granted for many reasons, including, among others:

- clinical results may not meet prescribed endpoints for the studies or otherwise provide sufficient data to support the efficacy of our product candidates;
- clinical and nonclinical test results may reveal side effects, adverse events or unexpected safety issues associated with the use of our product candidates; for example, in April 2014, a clinical hold was placed on patient enrollment and dosing of PEGPH20 in Study 202 as a result of a possible difference in the thromboembolic event rate that had been observed at that time in the trial between the group of patients treated with PEGPH20 versus the group of patients treated without PEGPH20. The clinical hold was lifted by FDA in June 2014, and we have resumed enrollment and dosing of PEGPH20 in Study 202 under a revised clinical protocol;
- regulatory review may not find a product candidate safe or effective enough to merit either continued testing or final approval;
- regulatory review may not find that the data from preclinical testing and clinical trials justifies approval;
- regulatory authorities may require that we change our studies or conduct additional studies which may significantly delay or make continued pursuit of approval commercially unattractive; for example, we are currently in dialog but do not have clarity from the FDA regarding the data that we will need for a label change for Hylenex recombinant to be used in CSII;
- a regulatory agency may reject our trial data or disagree with our interpretations of either clinical trial data or applicable regulations;
- a regulatory agency may approve only a narrow use of our product or may require additional safety monitoring and reporting through Risk Evaluation and Mitigation Strategies (REMS) or conditions to assure safe use program;
- the cost of clinical trials required for product approval may be greater than what we originally anticipate, and we may decide to not pursue regulatory approval for such a product;
- a regulatory agency may not approve our manufacturing processes or facilities, or the processes or facilities of our collaborators, our contract manufacturers or our raw material suppliers;
- a regulatory agency may identify problems or other deficiencies in our existing manufacturing processes or facilities, or the existing processes or facilities of our collaborators, our contract manufacturers or our raw material suppliers;
- a regulatory agency may change its formal or informal approval requirements and policies, act contrary to previous guidance, adopt new regulations or raise new issues or concerns late in the approval process; or
- a product candidate may be approved only for indications that are narrow or under conditions that place the product at a competitive disadvantage, which may limit the sales and marketing activities for such product candidate or otherwise adversely impact the commercial potential of a product.

If a proprietary or collaboration product candidate is not approved in a timely fashion on commercially viable terms, or if development of any product candidate is terminated due to difficulties or delays encountered in the regulatory approval process, it could have a material adverse impact on our business, and we would become more dependent on the development of other proprietary or collaboration product candidates and/or our ability to successfully acquire other products and technologies. There can be no assurances that any proprietary or collaboration product candidate will receive regulatory approval in a timely manner, or at all. For example, we are in dialog but have not reached agreement with the FDA regarding the requirements for updating the Hylenex recombinant label for use in CSII. There can be no assurance that we will be able to gain clarity as to the FDA's requirements or that the requirements may be satisfied in a commercially feasible way, in which case our ability to enter into collaborations with third

parties or explore other strategic alternatives to exploit this opportunity will be limited or may not be possible.

We anticipate that certain proprietary and collaboration products will be marketed, and perhaps manufactured, in foreign countries. The process of obtaining regulatory approvals in foreign countries is subject to delay and failure for the reasons set forth above, as well as for reasons that vary from jurisdiction to jurisdiction. The approval process varies among countries and jurisdictions and can involve additional testing. The time required to obtain approval may differ from that required to obtain FDA approval. Foreign regulatory agencies may not provide approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or jurisdictions or by the FDA.

Our third party collaborators are responsible for providing certain proprietary materials that are essential components of our collaboration products and product candidates, and any failure to supply these materials could delay the development and commercialization efforts for these collaboration products and product candidates and/or damage our collaborations.

Our development and commercialization collaborators are responsible for providing certain proprietary materials that are essential components of our collaboration products and product candidates. For example, Roche is responsible for producing the Herceptin and MabThera required for its subcutaneous products and Baxter is responsible for producing the GAMMAGARD LIQUID for its product HYQVIA. If a collaborator, or any applicable third party service provider of a collaborator, encounters difficulties in the manufacture, storage, delivery, fill, finish or packaging of the collaboration product or product candidate or component of such product or product candidate, such difficulties could (i) cause the delay of clinical trials or otherwise delay or prevent the regulatory approval of collaboration product candidates; and/or (ii) delay or prevent the effective commercialization of collaboration products. Such delays could have a material adverse effect on our business and financial condition.

We rely on third parties to prepare, fill, finish and package our products and product candidates, and if such third parties should fail to perform, our commercialization and development efforts for our products and product candidates could be delayed or stopped.

We rely on third parties to store and ship bulk rHuPH20 on our behalf and to also prepare, fill, finish and package our products and product candidates prior to their distribution. If we are unable to locate third parties to perform these functions on terms that are acceptable to us, or if the third parties we identify fail to perform their obligations, the progress of clinical trials could be delayed or even suspended and the commercialization of approved product candidates could be delayed or prevented. In addition, we are in the early stages of scaling up our manufacturing of PEGPH20 with a third party to support additional clinical trials, including a possible registration-enabling trial, and ultimately, if approved, potential commercial supply. If our contract manufacturer is unable to successfully manufacture and supply PEGPH20, the progress of our clinical trials could be delayed or halted for a period of time. If we are unable to sufficiently develop our sales, marketing and distribution capabilities or enter into successful agreements with third parties to perform these functions, we will not be able to fully commercialize our products. We may not be successful in marketing and promoting our approved product, Hylenex recombinant, or any other products we develop or acquire in the future. Our sales, marketing and distribution capabilities are very limited. In order to commercialize any products successfully, we must internally develop substantial sales, marketing and distribution capabilities or establish collaborations or other arrangements with third parties to perform these services. We do not have extensive experience in these areas, and we may not be able to establish adequate in-house sales, marketing and distribution capabilities or engage and effectively manage relationships with third parties to perform any or all of such services. To the extent that we enter into co-promotion or other licensing arrangements, our product revenues are likely to be lower than if we directly marketed and sold our products, and any revenues we receive will depend upon the efforts of third parties, whose efforts may not meet our expectations or be successful. These third parties would be largely responsible for the speed and scope of sales and marketing efforts, and may not dedicate the resources necessary to maximize product opportunities. Our ability to cause these third parties to increase the speed and scope of their efforts may also be limited. In addition, sales and marketing efforts could be negatively impacted by the delay or failure to obtain additional supportive clinical trial data for our products. In some cases, third party collaborators are responsible for conducting these additional clinical trials, and our ability to increase the efforts and resources allocated to these trials may be limited. For example, in January 2011, we and Baxter mutually agreed to

terminate the collaboration agreement for the marketing rights of Hylenex recombinant and the associated agreements.



If we or our collaborators fail to comply with regulatory requirements applicable to promotion, sale and manufacturing of approved products, regulatory agencies may take action against us or them, which could significantly harm our business.

Any approved products, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for these products, are subject to continual requirements and review by the FDA, state and foreign regulatory bodies. Regulatory authorities subject a marketed product, its manufacturer and the manufacturing facilities to continual review and periodic inspections. We, our collaborators and our respective contractors, suppliers and vendors, will be subject to ongoing regulatory requirements, including complying with regulations and laws regarding advertising, promotion and sales of drug products, required submissions of safety and other post-market information and reports, registration requirements, cGMP regulations (including requirements relating to quality control and quality assurance, as well as the corresponding maintenance of records and documentation), and the requirements regarding the distribution of samples to physicians and recordkeeping requirements. Regulatory agencies may change existing requirements or adopt new requirements or policies. We, our collaborators and our respective contractors, suppliers and vendors, may be slow to adapt or may not be able to adapt to these changes or new requirements.

In particular, regulatory requirements applicable to pharmaceutical products make the substitution of suppliers and manufacturers costly and time consuming. We have minimal internal manufacturing capabilities and are, and expect to be in the future, entirely dependent on contract manufacturers and suppliers for the manufacture of our products and for their active and other ingredients. The disqualification of these manufacturers and suppliers through their failure to comply with regulatory requirements could negatively impact our business because the delays and costs in obtaining and qualifying alternate suppliers (if such alternative suppliers are available, which we cannot assure) could delay clinical trials or otherwise inhibit our ability to bring approved products to market, which would have a material adverse effect on our business and financial condition. Likewise, if we, our collaborators and our respective contractors, suppliers and vendors involved in sales and promotion of our products do not comply with applicable laws and regulations, for example off-label or false or misleading promotion, this could materially harm our business and financial condition.

Failure to comply with regulatory requirements may result in any of the following:

- restrictions on our products or manufacturing processes;
- warning letters;
- withdrawal of the products from the market;
- voluntary or mandatory recall;
- fines;
- suspension or withdrawal of regulatory approvals;
- suspension or termination of any of our ongoing clinical trials;
- refusal to permit the import or export of our products;
- refusal to approve pending applications or supplements to approved applications that we submit;
- product seizure;
- injunctions; or
- imposition of civil or criminal penalties.

We may wish to raise additional capital in the future and there can be no assurance that we will be able to obtain such funds.

We may wish to raise additional capital in the future to continue the development of our product candidates or for other current corporate purposes. Our current cash reserves and expected revenues during the next few years may not be sufficient for us to continue the development of our proprietary product candidates, to fund general operations and conduct our business at the level desired. In addition, if we engage in acquisitions of companies, products or technologies in order to execute our business strategy, we may need to raise additional capital. We may raise additional capital in the future through one or more financing vehicles that may be available to us including (i) the public or private issuance of securities; (ii) new collaborative agreements; and/or (iii) expansions or revisions to

existing collaborative relationships.

In view of our stage of development, business prospects, the nature of our capital structure and general market conditions, if we are required to raise additional capital in the future, the additional financing may not be available on favorable terms, or at all. If additional capital is not available on favorable terms when needed, we will be required to raise capital on adverse terms or

significantly reduce operating expenses through the restructuring of our operations. If we raise additional capital, a substantial number of additional shares may be issued, and these shares will dilute the ownership interest of our current investors.

We currently have significant debt and failure by us to fulfill our obligations under the applicable loan agreements may cause the repayment obligations to accelerate.

In December 2013, we entered into an Amended and Restated Loan and Security Agreement (the Loan Agreement) with Oxford Finance LLC (Oxford) and Silicon Valley Bank (SVB) (collectively, the Lenders), amending and restating in its entirety our original loan agreement with the Lenders, dated December 2012. The Loan Agreement provided for an additional \$20 million principal amount of new term loan, bringing the total term loan balance to \$50 million. The proceeds are to be used for working capital and general business requirements. In January 2015, we entered into the Second Amendment to the Amended and Restated Loan and Security Agreement and First Amendment to Disbursement Letter (the "Amendment") with the Lenders, amending and restating the loan payment schedules of the Amended and Restated Loan and Security Agreement. The amended and restated term loan repayment schedule provides for interest only payments through January 2016, followed by consecutive equal monthly payments of principal and interest in arrears starting in February 2016 and continuing through the previously established maturity date of January 2018. The amended and restated term loan facility is secured by substantially all of the assets of the Company and its subsidiary, Halozyme, Inc., except that the collateral does not include any equity interests in Halozyme, Inc., any intellectual property (including all licensing, collaboration and similar agreements relating thereto), and certain other excluded assets. The Loan Agreement contains customary representations, warranties and covenants by us, which covenants limit our ability to convey, sell, lease, transfer, assign or otherwise dispose of certain of our assets; engage in any business other than the businesses currently engaged in by us or reasonably related thereto; liquidate or dissolve; make certain management changes; undergo certain change of control events; create, incur, assume, or be liable with respect to certain indebtedness; grant certain liens; pay dividends and make certain other restricted payments; make certain investments; make payments on any subordinated debt; and enter into transactions with any of our affiliates outside of the ordinary course of business or permit our subsidiaries to do the same. In addition, subject to certain exceptions, we are required to maintain with SVB our primary deposit accounts, securities accounts and commodities, and to do the same for our domestic subsidiary. Complying with these covenants may make it more difficult for us to successfully execute our business strategy.

The Loan Agreement also contains customary indemnification obligations and customary events of default, including, among other things, our failure to fulfill certain of our obligations under the Loan Agreement and the occurrence of a material adverse change which is defined as a material adverse change in our business, operations or condition (financial or otherwise), a material impairment of the prospect of repayment of any portion of the loan, or a material impairment in the perfection or priority of lender's lien in the collateral or in the value of such collateral. In the event of default by us under the Loan Agreement, the Lenders would be entitled to exercise their remedies thereunder, including the right to accelerate the debt, upon which we may be required to repay all amounts then outstanding under the Loan Agreement which could harm our financial condition.

If proprietary or collaboration product candidates are approved for marketing but do not gain market acceptance, our business may suffer and we may not be able to fund future operations.

Assuming that our proprietary or collaboration product candidates obtain the necessary regulatory approvals for commercial sale, a number of factors may affect the market acceptance of these existing product candidates or any other products which are developed or acquired in the future, including, among others:

- the price of products relative to other therapies for the same or similar treatments;
- the perception by patients, physicians and other members of the health care community of the effectiveness and safety of these products for their prescribed treatments relative to other therapies for the same or similar treatments;
- our ability to fund our sales and marketing efforts and the ability and willingness of our collaborators to fund sales and marketing efforts;
- the degree to which the use of these products is restricted by the approved product label;
- the effectiveness of our sales and marketing efforts and the effectiveness of the sales and marketing efforts of our collaborators;

the introduction of generic competitors; and  
the extent to which reimbursement for our products and related treatments will be available from third party payors  
including government insurance programs (Medicare and Medicaid) and private insurers.

If these products do not gain market acceptance, we may not be able to fund future operations, including the development or acquisition of new product candidates and/or our sales and marketing efforts for our approved products, which would cause our business to suffer.

In addition, our proprietary and collaboration product candidates will be restricted to the labels approved by FDA and applicable regulatory bodies, and these restrictions may limit the marketing and promotion of the ultimate products. If the approved labels are restrictive, the sales and marketing efforts for these products may be negatively affected.

Developing and marketing pharmaceutical products for human use involves significant product liability risks for which we currently have limited insurance coverage.

The testing, marketing and sale of pharmaceutical products involves the risk of product liability claims by consumers and other third parties. Although we maintain product liability insurance coverage, product liability claims can be high in the pharmaceutical industry, and our insurance may not sufficiently cover our actual liabilities. If product liability claims were to be made against us, it is possible that the liabilities may exceed the limits of our insurance policy, or our insurance carriers may deny, or attempt to deny, coverage in certain instances. If a lawsuit against us is successful, then the lack or insufficiency of insurance coverage could materially and adversely affect our business and financial condition. Furthermore, various distributors of pharmaceutical products require minimum product liability insurance coverage before purchase or acceptance of products for distribution. Failure to satisfy these insurance requirements could impede our ability to achieve broad distribution of our proposed products, and higher insurance requirements could impose additional costs on us. In addition, since many of our collaboration product candidates include the pharmaceutical products of a third party, we run the risk that problems with the third party pharmaceutical product will give rise to liability claims against us.

Our inability to attract, hire and retain key management and scientific personnel could negatively affect our business. Our success depends on the performance of key management and scientific employees with relevant experience. For example, in order to pursue our current business strategy, we will need to recruit and retain personnel experienced in oncology drug development which is a highly competitive market for talent. We depend substantially on our ability to hire, train, motivate and retain high quality personnel, especially our scientists and management team. Particularly in view of the small number of employees on our staff to cover our numerous programs and key functions, if we are unable to retain existing personnel or identify or hire additional personnel, we may not be able to research, develop, commercialize or market our products and product candidates as expected or on a timely basis and we may not be able to adequately support current and future alliances with strategic collaborators.

Furthermore, if we were to lose key management personnel, we would likely lose some portion of our institutional knowledge and technical know-how, potentially causing a substantial delay in one or more of our development programs until adequate replacement personnel could be hired and trained. We currently have a severance policy applicable to all employees and a change in control policy applicable to senior executives. Other than for vesting provisions in equity based awards, we have not adopted any other policies or entered into any other agreements specifically designed to motivate officers or other employees to remain with us.

We do not have key man life insurance policies on the lives of any of our employees.

Our operations might be interrupted by the occurrence of a natural disaster or other catastrophic event.

Our operations, including laboratories, offices and other research facilities, are located in four buildings in San Diego, California. We depend on our facilities and on our collaborators, contractors and vendors for the continued operation of our business. Natural disasters or other catastrophic events, interruptions in the supply of natural resources, political and governmental changes, wildfires and other fires, floods, explosions, actions of animal rights activists, earthquakes and civil unrest could disrupt our operations or those of our collaborators, contractors and vendors. Even though we believe we carry commercially reasonable business interruption and liability insurance, and our contractors may carry liability insurance that protect us in certain events, we may suffer losses as a result of business interruptions that exceed the coverage available under our and our contractors' insurance policies or for which we or our contractors do not have coverage. Any natural disaster or catastrophic event could have a significant negative impact on our operations and financial results. Moreover, any such event could delay our research and development programs.



If we or our collaborators do not achieve projected development, clinical, regulatory or sales goals in the timeframes we publicly announce or otherwise expect, the commercialization of our products and the development of our product candidates may be delayed and, as a result, our stock price may decline, and we may face lawsuits relating to such declines.

From time to time, we or our collaborators may publicly articulate the estimated timing for the accomplishment of certain scientific, clinical, regulatory and other product development goals. The accomplishment of any goal is typically based on numerous assumptions, and the achievement of a particular goal may be delayed for any number of reasons both within and outside of our control. If scientific, regulatory, strategic or other factors cause us to not meet a goal, regardless of whether that goal has been publicly articulated or not, our stock price may decline rapidly. For example, the announcement in April 2014 of the temporary halting of our Phase 2 clinical trial for PEGPH20 caused a rapid decline in our stock price. Stock price declines may also trigger direct or derivative shareholder lawsuits. As with any litigation proceeding, the eventual outcome of any legal action is difficult to predict. If any such lawsuits occur, we will incur expenses in connection with the defense of these lawsuits, and we may have to pay substantial damages or settlement costs in connection with any resolution thereof. Although we have insurance coverage against which we may claim recovery against some of these expenses and costs, the amount of coverage may not be adequate to cover the full amount or certain expenses and costs may be outside the scope of the policies we maintain. In the event of an adverse outcome or outcomes, our business could be materially harmed from depletion of cash resources, negative impact on our reputation, or restrictions or changes to our governance or other processes that may result from any final disposition of the lawsuit. Moreover, responding to and defending pending litigation significantly diverts management's attention from our operations.

In addition, the consistent failure to meet publicly announced milestones may erode the credibility of our management team with respect to future milestone estimates.

Future acquisitions could disrupt our business and harm our financial condition.

In order to augment our product pipeline or otherwise strengthen our business, we may decide to acquire additional businesses, products and technologies. As we have limited experience in evaluating and completing acquisitions, our ability as an organization to make such acquisitions is unproven. Acquisitions could require significant capital infusions and could involve many risks, including, but not limited to, the following:

- we may have to issue convertible debt or equity securities to complete an acquisition, which would dilute our stockholders and could adversely affect the market price of our common stock;
- an acquisition may negatively impact our results of operations because it may require us to amortize or write down amounts related to goodwill and other intangible assets, or incur or assume substantial debt or liabilities, or it may cause adverse tax consequences, substantial depreciation or deferred compensation charges;
- we may encounter difficulties in assimilating and integrating the business, products, technologies, personnel or operations of companies that we acquire;
- certain acquisitions may impact our relationship with existing or potential collaborators who are competitive with the acquired business, products or technologies;
- acquisitions may require significant capital infusions and the acquired businesses, products or technologies may not generate sufficient value to justify acquisition costs;
- we may take on liabilities from the acquired company such as debt, legal liabilities or business risk which could be significant;
- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- acquisitions may involve the entry into a geographic or business market in which we have little or no prior experience; and
- key personnel of an acquired company may decide not to work for us.

If any of these risks occurred, it could adversely affect our business, financial condition and operating results. There is no assurance that we will be able to identify or consummate any future acquisitions on acceptable terms, or at all. If we do pursue any acquisitions, it is possible that we may not realize the anticipated benefits from such acquisitions or that the market will not view such acquisitions positively.





Security breaches may disrupt our operations and harm our operating results.

The wrongful use, theft, deliberate sabotage or any other type of security breach with respect to any of our information technology storage and access systems could result in disclosure or dissemination of our proprietary and confidential information that is electronically stored, including research or clinical data, resulting in a material adverse impact on our business, operating results and financial condition. Our security and data recovery measures may not be adequate to protect against computer viruses, break-ins, and similar disruptions from unauthorized tampering with our electronic storage systems. Furthermore, any physical break-in or trespass of our facilities could result in the misappropriation, theft, sabotage or any other type of security breach with respect to our proprietary and confidential information, including research or clinical data or damage to our research and development equipment and assets. Such adverse effects could be material and irrevocable to our business, operating results and financial condition.

#### Risks Related To Ownership of Our Common Stock

Our stock price is subject to significant volatility.

We participate in a highly dynamic industry which often results in significant volatility in the market price of common stock irrespective of company performance. As a result, our high and low sales prices of our common stock during the twelve months ended December 31, 2014 were \$18.18 and \$6.88, respectively. We expect our stock price to continue to be subject to significant volatility and, in addition to the other risks and uncertainties described elsewhere in this Annual Report on Form 10-K and all other risks and uncertainties that are either not known to us at this time or which we deem to be immaterial, any of the following factors may lead to a significant drop in our stock price:

- the presence of competitive products to those being developed by us;
- failure (actual or perceived) of our collaborators to devote attention or resources to the development or commercialization of product candidates licensed to such collaborator;
- a dispute regarding our failure, or the failure of one of our third party collaborators, to comply with the terms of a collaboration agreement;
- the termination, for any reason, of any of our collaboration agreements;
- the sale of common stock by any significant stockholder, including, but not limited to, direct or indirect sales by members of management or our Board of Directors;
- the resignation, or other departure, of members of management or our Board of Directors;
- general negative conditions in the healthcare industry;
- general negative conditions in the financial markets;
- the failure, for any reason, to obtain regulatory approval for any of our proprietary or collaboration product candidates;
- the failure, for any reason, to secure or defend our intellectual property position;
- for those products that are not yet approved for commercial sale, the failure or delay of applicable regulatory bodies to approve such products;
- identification of safety or tolerability issues;
- failure of clinical trials to meet efficacy endpoints;
- suspensions or delays in the conduct of clinical trials or securing of regulatory approvals;
- adverse regulatory action with respect to our and our collaborators' products and product candidates such as clinical holds, imposition of onerous requirements for approval or product recalls;
- our failure, or the failure of our third party collaborators, to successfully commercialize products approved by applicable regulatory bodies such as the FDA;
- our failure, or the failure of our third party collaborators, to generate product revenues anticipated by investors;
- problems with a bulk rHuPH20 contract manufacturer or a fill and finish manufacturer for any product or product candidate;
- the sale of additional debt and/or equity securities by us;
- our failure to obtain financing on acceptable terms; or
- a restructuring of our operations.



Future transactions where we raise capital may negatively affect our stock price.

We are currently a “Well-Known Seasoned Issuer” and may file automatic shelf registration statements at any time with the SEC. In addition, we currently have the ability to offer and sell additional equity, debt securities and warrants to purchase such securities, either individually or in units, under an effective automatic shelf registration statement. Sales of substantial amounts of shares of our common stock or other securities under our shelf registration statements could lower the market price of our common stock and impair our ability to raise capital through the sale of equity securities. In the future, we may issue additional options, warrants or other derivative securities convertible into our common stock.

Our rights agreement and anti-takeover provisions in our charter documents and Delaware law may make an acquisition of us more difficult.

We are party to a Rights Agreement designed to deter abusive takeover tactics and to encourage prospective acquirers to negotiate with our board of directors rather than attempt to acquire us in a manner or on terms that our board deems unacceptable, which could delay or discourage takeover attempts that stockholders may consider favorable.

In addition, anti-takeover provisions in our charter documents and Delaware law may make an acquisition of us more difficult. First, our board of directors is classified into three classes of directors. Under Delaware law, directors of a corporation with a classified board may be removed only for cause unless the corporation's certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation, as amended, does not provide otherwise. In addition, our bylaws limit who may call special meetings of stockholders, permitting only stockholders holding at least 50% of our outstanding shares to call a special meeting of stockholders. Our amended and restated certificate of incorporation, as amended, does not include a provision for cumulative voting for directors. Under cumulative voting, a minority stockholder holding a sufficient percentage of a class of shares may be able to ensure the election of one or more directors. Finally, our bylaws establish procedures, including advance notice procedures, with regard to the nomination of candidates for election as directors and stockholder proposals.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors other than the candidates nominated by our board of directors.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders from consummating a merger with, or acquisition of, us.

These provisions may deter an acquisition of us that might otherwise be attractive to stockholders.

#### Risks Related to Our Industry

Our products must receive regulatory approval before they can be sold, and compliance with the extensive government regulations is expensive and time consuming and may result in the delay or cancellation of product sales, introductions or modifications.

Extensive industry regulation has had, and will continue to have, a significant impact on our business. All pharmaceutical companies, including ours, are subject to extensive, complex, costly and evolving regulation by the health regulatory agencies including the FDA (and with respect to controlled drug substances, the U.S. Drug Enforcement Administration (DEA)) and equivalent foreign regulatory agencies and state and local/regional government agencies. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other domestic and foreign statutes and regulations govern or influence the testing, manufacturing, packaging, labeling, storing, recordkeeping, safety, approval, advertising, promotion, sale and distribution of our products. We are dependent on receiving FDA and other governmental approvals prior to manufacturing, marketing and shipping our products. Consequently, there is always a risk that the FDA or other applicable governmental authorities will not approve our products or may impose onerous, costly and time-consuming requirements such as additional clinical or animal testing. Regulatory authorities may require that we change our studies or conduct additional studies, which may significantly delay or make continued pursuit of approval commercially unattractive. We are currently in dialog but do not have clarity from the FDA regarding the path for a labeling update to include key efficacy and safety data prior to initiating Hylenex recombinant for use in CSII. There can be no assurance that we will be able to gain clarity as to the

FDA's requirements. The FDA or other foreign regulatory agency may,

at any time, halt our and our collaborators' development and commercialization activities due to safety concerns. In addition, even if our products are approved, regulatory agencies may also take post-approval action limiting or revoking our ability to sell our products. Any of these regulatory actions may adversely affect the economic benefit we may derive from our products and therefore harm our financial condition.

Under certain of these regulations, we and our contract suppliers and manufacturers are subject to periodic inspection of our or their respective facilities, procedures and operations and/or the testing of products by the FDA, the DEA and other authorities, which conduct periodic inspections to confirm that we and our contract suppliers and manufacturers are in compliance with all applicable regulations. The FDA also conducts pre-approval and post-approval reviews and plant inspections to determine whether our systems, or our contract suppliers' and manufacturers' processes, are in compliance with cGMP and other FDA regulations. If we, or our contract supplier, fail these inspections, we may not be able to commercialize our product in a timely manner without incurring significant additional costs, or at all.

In addition, the FDA imposes a number of complex regulatory requirements on entities that advertise and promote pharmaceuticals including, but not limited to, standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities, and promotional activities involving the internet. We may be subject, directly or indirectly, to various broad federal and state healthcare laws. If we are unable to comply, or have not fully complied, with such laws, we could face civil, criminal and administrative penalties, damages, monetary fines, disgorgement, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings and curtailment or restructuring of our operations, any of which could adversely affect our ability to operate.

Our business operations and activities may be directly, or indirectly, subject to various broad federal and state healthcare laws, including without limitation, anti-kickback laws, false claims laws, civil monetary penalty laws, data privacy and security laws, tracing and tracking laws, as well as transparency laws regarding payments or other items of value provided to healthcare providers. These laws may restrict or prohibit a wide range of business activities, including, but not limited to, research, manufacturing, distribution, pricing, discounting, marketing and promotion and other business arrangements. These laws may impact, among other things, our current activities with principal investigators and research subjects, as well as sales, marketing and education programs. Many states have similar healthcare fraud and abuse laws, some of which may be broader in scope and may not be limited to items or services for which payment is made by a government health care program.

Efforts to ensure that our business arrangements will comply with applicable healthcare laws may involve substantial costs. While we have adopted a healthcare corporate compliance program, it is possible that governmental and enforcement authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law interpreting applicable fraud and abuse or other healthcare laws. If our operations or activities are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to, without limitation, civil, criminal and administrative penalties, damages, monetary fines, disgorgement, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings and curtailment or restructuring of our operations, any of which could adversely affect our ability to operate.

In addition, any sales of products outside the U.S. will also likely subject us to foreign equivalents of the healthcare laws mentioned above, among other foreign laws.

We may be required to initiate or defend against legal proceedings related to intellectual property rights, which may result in substantial expense, delay and/or cessation of the development and commercialization of our products.

We primarily rely on patents to protect our intellectual property rights. The strength of this protection, however, is uncertain. For example, it is not certain that:

- we will be able to obtain patent protection for our products and technologies;
- the scope of any of our issued patents will be sufficient to provide commercially significant exclusivity for our products and technologies;
- others will not independently develop similar or alternative technologies or duplicate our technologies and obtain patent protection before we do; and



any of our issued patents, or patent pending applications that result in issued patents, will be held valid, enforceable and infringed in the event the patents are asserted against others.

We currently own or license several patents and also have pending patent applications applicable to rHuPH20 and other proprietary materials. There can be no assurance that our existing patents, or any patents issued to us as a result of our pending patent applications, will provide a basis for commercially viable products, will provide us with any competitive advantages, or will not face third party challenges or be the subject of further proceedings limiting their scope or enforceability. Any weaknesses or limitations in our patent portfolio could have a material adverse effect on our business and financial condition. In addition, if any of our pending patent applications do not result in issued patents, or result in issued patents with narrow or limited claims, this could result in us having no or limited protection against generic or biosimilar competition against our product candidates which would have a material adverse effect on our business and financial condition.

We may become involved in interference proceedings in the U.S. Patent and Trademark Office, or other proceedings in other jurisdictions, to determine the priority, validity or enforceability of our patents. In addition, costly litigation could be necessary to protect our patent position.

We also rely on trademarks to protect the names of our products (e.g. Hylenex recombinant). We may not be able to obtain trademark protection for any proposed product names we select. In addition, product names for pharmaceutical products must be approved by health regulatory authorities such as the FDA in addition to meeting the legal standards required for trademark protection and product names we propose may not be timely approved by regulatory agencies which may delay product launch. In addition, our trademarks may be challenged by others. If we enforce our trademarks against third parties, such enforcement proceedings may be expensive.

We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect with confidentiality agreements with employees, consultants and others with whom we discuss our business. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of these agreements, and we might not be able to resolve these disputes in our favor.

In addition to protecting our own intellectual property rights, third parties may assert patent, trademark or copyright infringement or other intellectual property claims against us. If we become involved in any intellectual property litigation, we may be required to pay substantial damages, including but not limited to treble damages, attorneys' fees and costs, for past infringement if it is ultimately determined that our products infringe a third party's intellectual property rights. Even if infringement claims against us are without merit, defending a lawsuit takes significant time, may be expensive and may divert management's attention from other business concerns. Further, we may be stopped from developing, manufacturing or selling our products until we obtain a license from the owner of the relevant technology or other intellectual property rights. If such a license is available at all, it may require us to pay substantial royalties or other fees.

Patent protection for protein-based therapeutic products and other biotechnology inventions is subject to a great deal of uncertainty, and if patent laws or the interpretation of patent laws changes, our competitors may be able to develop and commercialize products based on our discoveries.

Patent protection for protein-based therapeutic products is highly uncertain and involves complex legal and factual questions. In recent years, there have been significant changes in patent law, including the legal standards that govern the scope of protein and biotechnology patents. Standards for patentability of full-length and partial genes, and their corresponding proteins, are changing. Recent court decisions have made it more difficult to obtain patents, by making it more difficult to satisfy the patentable subject matter requirement and the requirement of non-obviousness, have decreased the availability of injunctions against infringers, and have increased the likelihood of challenging the validity of a patent through a declaratory judgment action. Taken together, these decisions could make it more difficult and costly for us to obtain, license and enforce our patents. In addition, the Leahy-Smith America Invents Act (HR 1249) was signed into law in September 2011, which among other changes to the U.S. patent laws, changes patent priority from "first to invent" to "first to file," implements a post-grant opposition system for patents and provides for a prior user defense to infringement. These judicial and legislative changes have introduced significant uncertainty in the patent law landscape and may potentially negatively impact our ability to procure, maintain and enforce patents to provide exclusivity for our products.





There also have been, and continue to be, policy discussions concerning the scope of patent protection awarded to biotechnology inventions. Social and political opposition to biotechnology patents may lead to narrower patent protection within the biotechnology industry. Social and political opposition to patents on genes and proteins and recent court decisions concerning patentability of isolated genes may lead to narrower patent protection, or narrower claim interpretation, for isolated genes, their corresponding proteins and inventions related to their use, formulation and manufacture. Patent protection relating to biotechnology products is also subject to a great deal of uncertainty outside the U.S., and patent laws are evolving and undergoing revision in many countries. Changes in, or different interpretations of, patent laws worldwide may result in our inability to obtain or enforce patents, and may allow others to use our discoveries to develop and commercialize competitive products, which would impair our business. If third party reimbursement and customer contracts are not available, our products may not be accepted in the market. Our ability to earn sufficient returns on our products will depend in part on the extent to which reimbursement for our products and related treatments will be available from government health administration authorities, private health insurers, managed care organizations and other healthcare providers.

Third-party payors are increasingly attempting to limit both the coverage and the level of reimbursement of new drug products to contain costs. Consequently, significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Third party payors may not establish adequate levels of reimbursement for the products that we commercialize, which could limit their market acceptance and result in a material adverse effect on our financial condition.

Customer contracts, such as with group purchasing organizations and hospital formularies, will often not offer contract or formulary status without either the lowest price or substantial proven clinical differentiation. If our products are compared to animal-derived hyaluronidases by these entities, it is possible that neither of these conditions will be met, which could limit market acceptance and result in a material adverse effect on our financial condition. The rising cost of healthcare and related pharmaceutical product pricing has led to cost containment pressures that could cause us to sell our products at lower prices, resulting in less revenue to us.

Any of the proprietary or collaboration products that have been, or in the future are, approved by the FDA may be purchased or reimbursed by state and federal government authorities, private health insurers and other organizations, such as health maintenance organizations and managed care organizations. Such third party payors increasingly challenge pharmaceutical product pricing. The trend toward managed healthcare in the U.S., the growth of such organizations, and various legislative proposals and enactments to reform healthcare and government insurance programs, including the Medicare Prescription Drug Modernization Act of 2003, could significantly influence the manner in which pharmaceutical products are prescribed and purchased, resulting in lower prices and/or a reduction in demand. Such cost containment measures and healthcare reforms could adversely affect our ability to sell our products.

In March 2010, the U.S. adopted the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the Healthcare Reform Act). This law substantially changes the way healthcare is financed by both governmental and private insurers, and significantly impacts the pharmaceutical industry. The Healthcare Reform Act contains a number of provisions that are expected to impact our business and operations, in some cases in ways we cannot currently predict. Changes that may affect our business include those governing enrollment in federal healthcare programs, reimbursement changes, fraud and abuse and enforcement. These changes will impact existing government healthcare programs and will result in the development of new programs, including Medicare payment for performance initiatives and improvements to the physician quality reporting system and feedback program.

Additional provisions of the Healthcare Reform Act may negatively affect our revenues in the future. For example, the Healthcare Reform Act imposes a non-deductible excise tax on pharmaceutical manufacturers or importers that sell branded prescription drugs to U.S. government programs that we believe will impact our revenues from our products. In addition, as part of the Healthcare Reform Act's provisions closing a funding gap that currently exists in the Medicare Part D prescription drug program, we will also be required to provide a 50% discount on branded prescription drugs dispensed to beneficiaries under this prescription drug program. We expect that the Healthcare Reform Act and other healthcare reform measures that may be adopted in the future could have a material adverse

effect on our industry generally and on our ability to maintain or increase our product sales or successfully commercialize our product candidates or could limit or eliminate our future spending on development projects.

Furthermore, individual states have become increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access, importation from other countries and bulk purchasing. Legally mandated price controls on payment amounts by third party payors or other restrictions could negatively and materially impact our revenues and financial condition. We anticipate that we will encounter similar regulatory and legislative issues in most other countries outside the U.S.

We face intense competition and rapid technological change that could result in the development of products by others that are superior to our proprietary and collaboration products under development.

Our proprietary and collaboration products have numerous competitors in the U.S. and abroad including, among others, major pharmaceutical and specialized biotechnology firms, universities and other research institutions that have developed competing products. The competitors for Hylenex recombinant include, but are not limited to, Valeant Pharmaceuticals International, Inc. and Amphastar Pharmaceuticals, Inc. For our ultrafast insulin product candidates, such competitors may include Bioninco Inc., Eli Lilly, Sanofi Aventis, Novo Nordisk Inc. and Mannkind Corporation. For our PEGPH20 product candidate, such competitors may include major pharmaceutical and specialized biotechnology firms. These competitors may develop technologies and products that are more effective, safer, or less costly than our current or future proprietary and collaboration product candidates or that could render our technologies and product candidates obsolete or noncompetitive. Many of these competitors have substantially more resources and product development, manufacturing and marketing experience and capabilities than we do. In addition, many of our competitors have significantly greater experience than we do in undertaking preclinical testing and clinical trials of pharmaceutical product candidates and obtaining FDA and other regulatory approvals of products and therapies for use in healthcare.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

Our administrative offices and research facilities are currently located in San Diego, California. We lease an aggregate of approximately 76,000 square feet of office and research space for a monthly rent expense of approximately \$145,000, net of costs and property taxes associated with the operation and maintenance of the subleased facilities. We believe the current space is adequate for our immediate needs.

#### Item 3. Legal Proceedings

From time to time, we may be involved in disputes, including litigation, relating to claims arising out of operations in the normal course of our business. Any of these claims could subject us to costly legal expenses and, while we generally believe that we have adequate insurance to cover many different types of liabilities, our insurance carriers may deny coverage or our policy limits may be inadequate to fully satisfy any damage awards or settlements. If this were to happen, the payment of any such awards could have a material adverse effect on our consolidated results of operations and financial position. Additionally, any such claims, whether or not successful, could damage our reputation and business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our consolidated results of operations or financial position.

#### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market Information

Our common stock is listed on the NASDAQ Global Select Market under the symbol "HALO." The following table sets forth the high and low sales prices per share of our common stock during each quarter of the two most recent fiscal years:

|                | 2014    |         | 2013    |        |
|----------------|---------|---------|---------|--------|
|                | High    | Low     | High    | Low    |
| First Quarter  | \$18.18 | \$11.28 | \$8.59  | \$5.14 |
| Second Quarter | \$12.97 | \$6.88  | \$8.49  | \$5.03 |
| Third Quarter  | \$10.70 | \$8.58  | \$12.15 | \$6.51 |
| Fourth Quarter | \$10.00 | \$7.51  | \$16.36 | \$9.33 |

On February 24, 2015, the closing sales price of our common stock on the NASDAQ Global Select Market was \$15.00 per share. As of February 24, 2015, we had approximately 17,000 stockholders of record.

## Dividends

We have never declared or paid any dividends on our common stock. We currently intend to retain available cash for funding operations; therefore, we do not expect to pay any dividends on our common stock in the foreseeable future. In addition, the provisions of our Loan Agreement limit, among other things, our ability to pay dividends and make certain other payments. Any future determination to pay dividends on our common stock will be at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contract restrictions, business prospects and other factors our board of directors may deem relevant.

### Stock Performance Graph and Cumulative Total Return

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed to be “filed” with the SEC or to be “soliciting material” under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and it shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent we specifically incorporate it by reference into such filing.

The graph below compares Halozyme Therapeutics, Inc.’s cumulative five-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite Index and the NASDAQ Biotechnology Index. The graph tracks the performance of a \$100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from December 31, 2009 to December 31, 2014. In addition, we have provided supplemental information showing the comparative returns for an additional period through February 24, 2015. The historical stock price performance included in this graph is not necessarily indicative of future stock price performance.

|                             | 12/31/2009 | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 | 2/24/2015 |
|-----------------------------|------------|------------|------------|------------|------------|------------|-----------|
| Halozyme Therapeutics, Inc. | \$100      | \$135      | \$162      | \$114      | \$255      | \$164      | \$256     |
| NASDAQ Composite            | \$100      | \$118      | \$117      | \$137      | \$193      | \$221      | \$232     |
| NASDAQ Biotechnology        | \$100      | \$115      | \$129      | \$171      | \$284      | \$381      | \$421     |

## Item 6. Selected Financial Data

The selected consolidated financial data set forth below as of December 31, 2014 and 2013, and for the fiscal years ended December 31, 2014, 2013 and 2012, are derived from our audited consolidated financial statements included elsewhere in this report. This information should be read in conjunction with those consolidated financial statements, the notes thereto, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected consolidated financial data set forth below as of December 31, 2012, 2011 and 2010, and for the fiscal years ended December 31, 2011 and 2010, are derived from our audited consolidated financial statements that are contained in reports previously filed with the SEC, not included herein.

## Summary Financial Information

| Statement of Operations Data:  | Year Ended December 31,                      |                     |                     |                     |             |
|--|--|---------------------|---------------------|---------------------|-------------|
|  | 2014 <sup>(1)</sup>                          | 2013 <sup>(2)</sup> | 2012 <sup>(3)</sup> | 2011 <sup>(4)</sup> | 2010        |
|  | (in thousands, except for per share amounts) |                     |                     |                     |             |
| Total revenues   | \$75,334                                     | \$54,799            | \$42,325            | \$56,086            | \$13,624    |
| Net loss   | \$(68,375 )                                  | \$(83,479 )         | \$(53,552 )         | \$(19,770 )         | \$(53,242 ) |
| Net loss per share, basic and diluted                                  | \$(0.56 )                                    | \$(0.74 )           | \$(0.48 )           | \$(0.19 )           | \$(0.56 )   |
| Shares used in computing net loss per share, basic and diluted         | 122,690                                      | 112,805             | 111,077             | 102,566             | 94,358      |
|  | As of December 31,                           |                     |                     |                     |             |
| Balance Sheet Data:  | 2014   | 2013                | 2012                | 2011                | 2010        |
|  | (in thousands)                               |                     |                     |                     |             |
| Cash and cash equivalents and available-for-sale marketable securities | \$135,623                                    | \$71,503            | \$99,501            | \$52,376            | \$82,756    |
| Working capital  | \$136,990                                    | \$70,293            | \$111,682           | \$46,236            | \$73,655    |
| Total assets   | \$165,977                                    | \$101,793           | \$134,728           | \$65,759            | \$91,345    |
| Deferred revenue   | \$54,634                                     | \$53,143            | \$43,846            | \$40,884            | \$58,094    |
| Long-term debt, net  | \$49,860                                     | \$49,772            | \$29,662            | —                   | —           |
| Total liabilities  | \$124,625                                    | \$121,783           | \$85,875            | \$54,858            | \$70,994    |
| Stockholders' equity (deficit)   | \$41,352                                     | \$(19,991 )         | \$48,854            | \$10,900            | \$20,351    |

(1) Revenues in 2014 included a \$15.0 million license fee from the Janssen Collaboration.

(2) Revenues in 2013 reflected increases in supply of bulk rHuPH20 to Roche and product sales of Hylenex recombinant, which was relaunched in December 2011.

(3) Revenues in 2012 included \$9.5 million in license fees from the Pfizer Collaboration.

(4) Revenues in 2011 included \$18.0 million in license fees from collaboration agreements with ViroPharma Incorporated and Intrexon Corporation and \$18.1 million related to recognition of unamortized deferred prepaid product-based payments and unamortized deferred upfront payment in connection with the termination of the collaboration with Baxter for the marketing rights of Hylenex recombinant in July 2011.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described in the Part I, Item 1A, Risks Factors, and elsewhere in this Annual Report. References to "Notes" are Notes included in our Notes to Consolidated Financial Statements.

### Overview

Halozyme is seeking to translate our unique knowledge of the tumor microenvironment to create novel therapies that can improve cancer survival. Our research focuses on human enzymes that alter the extracellular matrix and tumor microenvironment. The extracellular matrix is a complex matrix of proteins and carbohydrates surrounding the cell that provides structural support in tissues and orchestrates many important biological activities, including cell migration, signaling and survival. Over many years, we have developed unique technology and scientific expertise enabling us to pursue this target-rich environment for the development of therapies.

Our proprietary enzymes can be used to facilitate the delivery of injected drugs and fluids, potentially enhancing the efficacy and the convenience of other drugs or can be used to alter abnormal tissue structures for clinical benefit. We have chosen to exploit our technology and expertise in a balanced way to modulate both risk and spend by: (1) developing our own proprietary products in therapeutic areas with significant unmet medical needs, with a focus on oncology, and (2) licensing our technology to biopharmaceutical companies to collaboratively develop products which combine our technology with the collaborators' proprietary compounds.

The majority of our approved product and product candidates are based on rHuPH20, our patented recombinant human hyaluronidase enzyme. rHuPH20 temporarily breaks down hyaluronic acid (HA), a naturally occurring substance that is a major component of the extracellular matrix in tissues throughout the body such as skin and cartilage. We believe this temporary degradation creates an opportunistic window for the improved subcutaneous delivery of injectable biologics, such as monoclonal antibodies and other large therapeutic molecules, as well as small molecules and fluids. We refer to the application of rHuPH20 to facilitate the delivery of other drugs or fluids as Enhanze™ technology. rHuPH20 is also the active ingredient in our first commercially approved product, Hylenex® recombinant.

Our proprietary development pipeline consists primarily of clinical stage product candidates in oncology and diabetes. Our lead oncology program is PEGPH20 (PEGylated recombinant human hyaluronidase), a new molecular entity, under development for the systemic treatment of tumors that accumulate HA. When HA accumulates in a tumor, it can cause higher pressure in the tumor, reducing blood flow into the tumor and with that, reduced access of cancer therapies to the tumor. PEGPH20 works by temporarily degrading HA surrounding some cancer cells and results in reduced pressure and increased blood flow to the cancer with increased amounts of anticancer treatments administered concomitantly gaining access to the tumor. We are currently in Phase 2 clinical testing for PEGPH20 in metastatic pancreatic cancer (Study 109-202), and we have recently initiated a clinical trial in non-small cell lung cancer (Study 107-201). We have also been investigating Hylenex recombinant for use as pre-treatment in patients with Type 1 diabetes using pumps and recombinant human cathepsin L (HTI-501) for the treatment of cellulite.

Our recent receipt of Fast Track and Orphan Drug designations for PEGPH20, new pre-clinical data further supporting the pan-tumor potential for PEGPH20 and investigator interest in both pancreatic and lung cancer trials have confirmed PEGPH20 as our priority product candidate for investment. As a result of ongoing evaluations to confirm and focus on the highest value opportunities, we have made the decision to seek collaborations with third parties or explore other strategic alternatives in order to exploit our diabetes and dermatology programs.

Regarding Enhanze, we currently have collaborations with F. Hoffmann-La Roche, Ltd. and Hoffmann-La Roche, Inc. (Roche), Baxter Healthcare Corporation (Baxter), Pfizer Inc. (Pfizer) and Janssen Biotech, Inc. (Janssen), with one product approved in the U.S. and three products approved for marketing in Europe from which we are receiving royalties and several others at various stages of development.

Our operations to date have involved: (i) building infrastructure for and staffing our operations; (ii) acquiring, developing and securing proprietary protection for our technology; (iii) developing our proprietary product pipeline; (iv) entering into and supporting our collaborations with other companies to advance licensed product candidates; and (v) selling our own approved commercial product, Hylenex recombinant. Currently, we have received only limited revenue from the sales of Hylenex recombinant, in addition to other revenues from our collaborations.

Future revenues from the sales and/or royalties of our product candidates which have not been approved or have recently been approved will depend on the ability of Halozyme and our collaborators to develop, manufacture, secure regulatory approvals for and commercialize the product candidates. We have incurred net operating losses each year since inception, with an accumulated deficit of approximately \$450.4 million as of December 31, 2014.

Our 2014 and recent key accomplishments and events are as follows:

In January 2015, we disclosed initial efficacy and safety data from an interim assessment of Stage 1 of Study 109-202, a Phase 2 multicenter, randomized clinical trial evaluating PEGPH20 as a first-line therapy for patients with stage IV metastatic pancreatic cancer. Refer to PEGPH20 section under Part I, Item 1, Business, for further discussion of Study 109-202 data. We also presented the final results from Study 109-201, a multi-center, international open label dose escalation Phase 1b clinical study of PEGPH20 in combination with gemcitabine for the treatment of patients with stage IV metastatic pancreatic cancer at the 2015 Gastrointestinal Cancers Symposium (also known as ASCO-GI meeting). Refer to PEGPH20 section under Part I, Item 1, Business, for further discussion of Study 109-202 data.

In December 2014, we and Janssen entered into a collaboration and license agreement, under which Janssen has the worldwide license to develop and commercialize products combining our Enhance technology with Janssen proprietary biologics directed to up to five targets. Targets may be selected on an exclusive or non-exclusive basis. We received \$15 million for the license of one specified exclusive target and four additional targets which Janssen has the right to elect upon payment of additional fees. We are also eligible to receive additional payments upon Janssen's achievement of specified development, regulatory and sales-based events, totaling up to \$566 million.

In November 2014, we announced we had completed a corporate strategy review, including a portfolio review, which resulted in a decision to focus our resources on advancing PEGPH20 and to expand utilization of our Enhance platform. The recent Fast Track and Orphan Drug designations for PEGPH20, new pre-clinical data further supporting the pan-tumor potential for PEGPH20, and investigator interest in both pancreatic and lung cancer trials have confirmed PEGPH20 as our priority product for investment. With respect to our program investigating Hylenex recombinant for use with insulin pumps, we believe that additional clinical data will be required and are continuing to seek clarity with the U.S. Food and Drug Administration (FDA) on what data will be required, if any. Once we receive clarity, we intend to seek to enter into collaborations with third parties or explore other strategic alternatives in order to exploit this opportunity. We completed a reduction in our workforce of approximately 13% to align with these strategic priorities.



In October 2014, Baxter announced the launch and first shipments of HYQVIA [Immune Globulin Infusion 10% (Human) with rHuPH20], Baxter's subcutaneous immunoglobulin treatment for adult patients with primary immunodeficiency in the U.S. HYQVIA was approved by the FDA in September 2014, and is the first subcutaneous immune globulin (IG) treatment approved for primary immunodeficiency patients with a dosing regimen requiring only one infusion up to once per month (every three to four weeks) and one injection site per infusion to deliver a full monthly therapeutic dose of IG. The majority of primary immunodeficiency patients today receive intravenous infusions in a doctor's office or infusion center, and current subcutaneous IG treatments require weekly or bi-weekly treatment with multiple infusion sites per treatment. The FDA's approval of HYQVIA was a significant milestone for us as it represented the first U.S. approved Biologics License Application (BLA) which utilized our rHuPH20 platform.

In July 2014, we resumed enrollment and dosing of patients in our ongoing Study 109-202 evaluating PEGPH20 in patients with pancreatic cancer under a revised clinical protocol. The study had previously been placed on clinical hold in April 2014 pending review by the independent Data Monitoring Committee (DMC) for the study and by the FDA of a possible difference in the thromboembolic event rate between the patients treated with PEGPH20 versus the patients treated without PEGPH20 in the trial.

In June 2014, Roche launched the subcutaneous (SC) formulation of MabThera<sup>®</sup> (rituximab) using rHuPH20 (MabThera SC) in Europe for the treatment of patients with common forms of non-Hodgkin lymphoma (NHL). Roche received European marketing approval in March 2014. The first commercial launch of MabThera SC triggered a \$5 million milestone payment under the License and Collaboration Agreement between Halozyme and Roche. Following the launch of Herceptin<sup>®</sup> SC in September 2013, MabThera SC is the second novel subcutaneous formulation of one of Roche's oncology products using our patented Enhance technology to be launched in Europe.

In March 2014, Roche received European marketing approval for Roche's SC formation of MabThera (rituximab) for the treatment of patients with common forms of non-Hodgkin lymphoma (NHL). This is the second European approval for a novel subcutaneous formulation of one of Roche's oncology products using our rHuPH20 technology.

#### Results of Operations

##### Comparison of Years Ended December 31, 2014, 2013 and 2012

**Product Sales, Net** — Product sales increased in 2014 compared to 2013, by \$13.4 million, or 55%, primarily due to a \$9.8 million increase in product sales of bulk rHuPH20 for Roche collaboration products and a \$4.1 million increase in product sales of Hylenex recombinant. Hylenex recombinant product sales increased to \$13.2 million in 2014 from \$9.0 million in 2013. Product sales increased in 2013 compared to 2012 by \$21.6 million, or 746%, primarily due to \$14.8 million in product sales of bulk rHuPH20 for Roche and Baxter collaboration products, Herceptin SC and HyQvia. The increase was also due to a \$6.8 million increase in product sales of Hylenex recombinant. Subsequent to the receipt of the European marketing approval of Roche's Herceptin SC product in August 2013 and MabThera SC product in March 2014 and Baxter's HYQVIA product in May 2013, revenue from bulk rHuPH20 supply for these collaboration products was recorded as product sales revenue, instead of revenues under collaborative agreements.

**Royalties** – Royalty revenue was \$9.4 million in 2014 compared to \$33,000 in 2013. Royalties relate primarily to sales of Roche's Herceptin SC. The increase was mainly due to the launch of Herceptin SC in September 2013. We recognize royalties on sales of the collaboration products by the collaborators in the quarter following the quarter in which the corresponding sales occur.

Revenues Under Collaborative Agreements — Revenues under collaborative agreements for the years ended December 31, 2014, 2013 and 2012 were as follows (in thousands):

|   | 2014     | Change | 2013        | Change | 2012        |
|---|----------|--------|-------------|--------|-------------|
| Upfront payments, license maintenance fees and amortization of deferred upfront and license fees: |          |        |             |        |             |
| Janssen   | \$15,000 | n/a    | \$—         | —      | \$—         |
| Roche   | 3,028    | 31     | % 2,308     | 14     | % 2,016     |
| Pfizer  | 1,000    | (33    | %) 1,500    | (84    | %) 9,500    |
| Baxter  | 765      | 27     | % 604       | 25     | % 483       |
| Other   | —        | (100   | %) 2,000    | (18    | %) 2,429    |
|   | 19,793   | 209    | % 6,412     | (56    | %) 14,428   |
| Milestone payments:   |          |        |             |        |             |
| Roche   | —        | —      | —           | (100   | %) 8,000    |
| Reimbursements for research and development services and supply of bulk rHuPH20:                  |          |        |             |        |             |
| Roche <sup>(1)</sup>  | 6,923    | (64    | %) 19,086   | 115    | % 8,897     |
| Baxter <sup>(1)</sup>   | 1,209    | (70    | %) 4,059    | (40    | %) 6,742    |
| Pfizer  | 121      | (79    | %) 589      | n/a    | —           |
| Other   | 40       | (78    | %) 181      | (87    | %) 1,371    |
|   | 8,293    | (65    | %) 23,915   | 41     | % 17,010    |
| Total revenues under collaborative agreements   | \$28,086 | (7     | %) \$30,327 | (23    | %) \$39,438 |

Subsequent to the European approvals of Roche's Herceptin SC product in August 2013 and MabThera SC product (1) in March 2014 and Baxter's HYQVIA product in May 2013, revenue from supply of bulk rHuPH20 for those products to the collaborators was recorded as product sales.

In 2014, we recognized \$15.0 million in license fee revenue in connection with the Janssen Collaboration. In 2012, we recognized \$9.5 million in license fee revenue in connection with the Pfizer Collaboration. In 2012, we also recognized \$8.0 million upon achievement of certain regulatory milestones under the Roche Collaboration. Revenue from reimbursements for research and development services and bulk rHuPh20 supply decreased in 2014 compared to 2013 mainly due to revenue from supply of bulk rHuPH20 for Roche collaboration products being recognized as product sales revenue in the current period, as opposed to revenue from reimbursements for research and development services in the same period in 2013. The decrease was also due to a decrease in reimbursements for manufacturing services to support the launches by Roche and Baxter. Revenue from reimbursements for research and development services and bulk rHuPh20 supply increased in 2013 compared to 2012 due to the increase in reimbursements for manufacturing services to support the launches by Roche. Research and development services rendered by us on behalf of our collaborators are at the request of the collaborators; therefore, the amount of future revenues related to reimbursable research and development services and supply of bulk rHuPH20 is uncertain. We expect the non-reimbursement revenues under our collaborative agreements to continue to fluctuate in future periods based on our collaborators' abilities to meet various clinical and regulatory milestones set forth in such agreements and our abilities to obtain new collaborative agreements.

Cost of Product Sales — Cost of product sales increased in 2014 compared to 2013, by \$16.5 million, or 264%, primarily due to the increased product sales of bulk rHuPH20 for Herceptin SC. Cost of product sales increased in 2013 compared to 2012, by \$5.2 million, or 471%, primarily due to a \$2.8 million increase in cost of product sales related to the increased Hylenex recombinant product sales and \$2.3 million in cost of product sales related to the product sales of bulk rHuPH20 for Herceptin SC.



Prior to European marketing approvals of Roche's collaboration products, Herceptin SC in August 2013 and MabThera SC in March 2014, and Baxter's collaboration HYQVIA product in May 2013, all costs related to the manufacturing of bulk rHuPH20 for these collaboration products were charged to research and development expenses in the periods such costs were incurred. Therefore, cost of product sales of bulk rHuPH20 for these collaboration products in 2013 was materially reduced due to the exclusion of the manufacturing costs that were charged to research and development expenses in the periods prior to receiving marketing approvals.

Cost of product sales of bulk rHuPH20 for collaboration products in 2014 excluded \$1.0 million in manufacturing costs, of which \$0.9 million and \$0.1 million were charged to research and development expenses for 2013 and 2012, respectively. Cost of product sales of bulk rHuPH20 for collaboration products in 2013 excluded \$10.0 million in manufacturing costs, of which \$9.0 million and \$1.0 million were charged to research and development expenses in 2013 and 2012, respectively. The estimated selling price of the zero-cost inventory of bulk rHuPH20 for Herceptin SC on hand as of December 31, 2013, was approximately \$1.3 million. We sold all of this inventory in 2014. Going forward, the cost of product sales is expected to be approximately 83% of bulk rHuPH20 product sales revenue. There was no HyQvia API inventory on hand as of December 31, 2014 and 2013.

Research and Development — Research and development expenses incurred for the years ended December 31, 2014, 2013 and 2012 were as follows (in thousands):

|   | 2014     | Change | 2013        | Change | 2012       |
|---|----------|--------|-------------|--------|------------|
| Programs                                |          |        |             |        |            |
| Product Candidates:                     |          |        |             |        |            |
| PEGPH20                                 | \$34,857 | 86     | % \$18,742  | 50     | % \$12,479 |
| Ultrafast insulin program               | 22,424   | (9     | )% 24,723   | 371    | % 5,251    |
| Hylenex recombinant                     | 5,318    | (50    | )% 10,734   | (8     | )% 11,682  |
| HTI-501                                 | 1,447    | (47    | )% 2,712    | 38     | % 1,962    |
| Enhance collaborations <sup>(1)</sup>   | 6,799    | (78    | )% 31,104   | 19     | % 26,152   |
| rHuPH20 platform <sup>(2)</sup>         | 5,807    | (1     | )% 5,895    | (23    | )% 7,705   |
| Other                                   | 3,044    | 12     | % 2,730     | (43    | )% 4,813   |
| Total research and development expenses | \$79,696 | (18    | )% \$96,640 | 38     | % \$70,044 |

Subsequent to the European approvals of Roche's Herceptin SC product in August 2013 and MabThera SC product (1) in March 2014 and Baxter's HYQVIA product in May 2013, the manufacturing costs of bulk rHuPH20 for these collaboration products were capitalized as inventory.

(2) Includes research, development and manufacturing expenses related to our proprietary rHuPH20 enzyme. These expenses were not designated to a specific program at the time the expenses were incurred.

Research and development expenses relating to our PEGPH20 program in 2014 increased by 86%, compared to 2013 primarily due to the increased clinical trial activities mostly relating to Study 109-202. Research and development expenses relating to Hylenex recombinant program decreased in 2014 by 50% compared to 2013 mainly due to the completion of the technology transfer and validation campaign with a second manufacturer for Hylenex recombinant at the end of 2013. Research and development expenses relating to our Enhance collaborations in 2014 decreased by 78%, primarily due to a \$12.0 million decrease resulting from capitalizing manufacturing costs for approved collaboration products in the current period, an \$8.1 million decrease in other outsourced regulatory and manufacturing activities to support Roche and a \$2.5 million decrease in preclinical activities to support Baxter.

Subsequent to the European approvals of Roche's Herceptin SC product in August 2013 and MabThera SC product in March 2014 and Baxter's HYQVIA product in May 2013, the manufacturing costs of bulk rHuPH20 for these collaboration products were capitalized as inventory. We expect research and development costs to increase in future periods as we continue with our clinical trial programs and continue to develop and manufacture our product candidates.



Research and development expenses increased in 2013 compared to 2012 by \$26.6 million, or 38%. Research and development expenses relating to our ultrafast insulin and PEGPH20 programs increased in 2013 compared to 2012 by \$19.5 million, or 371%, and \$6.3 million, or 50%, respectively, primarily due to the increased clinical trial activities relating to the CONSISTENT 1 and on-going Phase 2 PEGPH20 clinical trials. Research and development expenses relating to our Enhanze collaborations increased in 2013 compared to 2012 by \$5.0 million, or 19%, primarily due to a \$9.8 million increase in manufacturing activities to support Roche's preparation for the launches of its collaboration product and product candidates; offset in part by a \$4.6 million decrease in manufacturing expenses to support Baxter's launch of its collaboration product.

**Selling, General and Administrative** — Selling, general and administrative (SG&A) expenses increased in 2014 compared to 2013 by \$3.6 million, or 11%, due to the increase in compensation costs, including a \$2.3 million increase in stock-based compensation.

SG&A expenses increased in 2013 compared to 2012 by \$7.5 million, or 30%, primarily due to a \$3.9 million increase in compensation costs, including a \$0.9 million increase in stock-based compensation, mainly resulting from an increase in headcount and higher bonus accruals, and a \$1.8 million increase in marketing activities for Hylenex recombinant product.

**Interest Expense** — Interest expense included interest expense and amortization of the debt discount related to the long-term debt acquired in December 2012. The increase of \$2.3 million in 2014 as compared to 2013 was due to the \$20.0 million increase in the principal balance in December 2013.

#### Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash, cash equivalents and available-for-sale marketable securities. As of December 31, 2014, we had cash, cash equivalents and marketable securities of approximately \$135.6 million.

We will continue to have significant cash requirements to support product development activities. The amount and timing of cash requirements will depend on the progress and success of our clinical development programs, regulatory and market acceptance, and the resources we devote to research and other commercialization activities.

We believe that our current cash, cash equivalents and marketable securities will be sufficient to fund our operations for at least the next twelve months. We currently anticipate total net cash burn of approximately \$35 million to \$45 million for the year ending December 31, 2015, depending on the progress of various preclinical and clinical programs, the timing of our manufacturing scale up and the achievement of various milestones and royalties under our existing collaborative agreements. We expect to fund our operations going forward with existing cash resources, anticipated revenues from our existing collaborations and cash that we may raise through future transactions. We may finance future cash needs through any one of the following financing vehicles: (i) the public offering of securities; (ii) new collaborative agreements; (iii) expansions or revisions to existing collaborative relationships; (iv) private financings; and/or (v) other equity or debt financings.

In February 2012, we filed an automatic shelf registration statement on Form S-3 (Registration No. 333-179444) with the SEC, which allows us, from time to time, to offer and sell equity, debt securities and warrants to purchase any of such securities, either individually or in units. We may, in the future, offer and sell equity, debt securities and warrants to purchase any of such securities, either individually or in units to raise capital to fund the continued development of our product candidates, the commercialization of our products or for other general corporate purposes.

Our existing cash, cash equivalents and marketable securities may not be adequate to fund our operations until we become cash flow positive, if ever. We cannot be certain that additional financing will be available when needed or, if available, financing will be obtained on favorable terms. If we are unable to raise sufficient funds, we may need to delay, scale back or eliminate some or all of our research and development programs, delay the launch of our product candidates, if approved, and/or restructure our operations. If we raise additional funds by issuing equity securities, substantial dilution to existing stockholders could result. If we raise additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations, the issuance of warrants that may ultimately dilute existing stockholders when exercised and covenants that may restrict our ability to operate our business.



## Cash Flows

### Operating Activities

Net cash used in operations was \$47.5 million in 2014 compared to \$49.3 million of net cash used in operations in 2013. The \$1.8 million decrease in utilization of cash in operations was mainly due to the receipt of a \$15.0 million license fee payment from the Janssen Collaboration; offset in part by the timing of the collection of accounts receivable and the payment of accounts payable.

Net cash used in operations was \$49.3 million in 2013 compared to \$64.3 million of net cash used in 2012. The \$15.0 million decrease in utilization of cash in operations was mainly due to receipts of the first commercial sale milestone payments totaling \$14.0 million in 2013 from Roche and Baxter and timing of the collection of accounts receivable and the payment of accounts payable.

### Investing Activities

Net cash used in investing activities was \$33.0 million in 2014 compared to \$47.9 million in 2013 and \$1.4 million in 2012. This decrease in 2014 compared to 2013 was primarily due to a \$53.9 million increase in proceeds from maturities of marketable securities; offset in part by a \$39.9 million increase in purchases of marketable securities in 2014. The increase in net cash used in investing activities in 2013 as compared to 2012 was primarily due to the purchases of marketable securities of \$48.9 million in 2013.

### Financing Activities

Net cash provided by financing activities was \$114.5 million in 2014 compared to \$25.1 million in 2013 and \$112.8 million in 2012. Net cash provided by financing activities in 2014 consisted of \$107.7 million in net proceeds from the sale of our common stock in February 2014 and \$6.8 million in net proceeds from option exercises. Net cash provided by financing activities in 2013 consisted of net proceeds of \$20.0 million from the amended long-term debt and \$5.1 million in net proceeds from option exercises. Net cash provided by financing activities in 2012 consisted of net proceeds of \$81.5 million from the sale of our common stock in February 2012, net proceeds of \$29.7 million from long-term debt, and \$1.7 million in net proceeds from option exercises.

### Long-Term Debt

In December 2013, we entered into an Amended and Restated Loan and Security Agreement (the Loan Agreement) with Oxford Finance LLC (Oxford) and Silicon Valley Bank (SVB) (collectively, the Lenders), amending and restating in its entirety our original loan agreement with the Lenders, dated December 2012. The Loan Agreement provided for an additional \$20 million principal amount of new term loan, bringing the total term loan balance to \$50 million. The proceeds are to be used for working capital and general business requirements. The amended term loan facility matures on January 1, 2018. The outstanding term loan was \$49.9 million as of December 31, 2014, net of unamortized debt discount of \$0.1 million.

In January 2015, we and the Lenders entered into a second amendment to the Loan Agreement (the Amendment) amending and restating the loan repayment schedule of the Loan Agreement. The amended and restated loan repayment schedule provides for interest only payments in arrears through January 2016, followed by consecutive equal monthly payments of principal and interest in arrears starting in February 2016 and continuing through the previously established maturity date. Consistent with the original loan, the Loan Agreement provides for a 7.55% interest rate on the term loan and a final interest payment equal to 8.5% of the original principal amount, or \$4.25 million, which is due when the term loan becomes due or upon the prepayment of the facility. We have the option to prepay the outstanding balance of the term loan in full, subject to a prepayment fee of 1% to 3% depending upon when the prepayment occurs.

The amended and restated term loan facility is secured by substantially all of the assets of the Company and Halozyne, Inc., except that the collateral does not include any equity interests in Halozyne, Inc., any intellectual property (including all licensing, collaboration and similar agreements relating thereto), and certain other excluded assets. The Loan Agreement contains customary representations, warranties and covenants by us, which covenants limit our ability to convey, sell, lease, transfer, assign or otherwise dispose of certain of our assets; engage in any business other than the businesses currently engaged in by us or reasonably related thereto; liquidate or dissolve; make certain management changes; undergo certain change of control events; create, incur, assume, or be liable with respect to certain indebtedness; grant certain liens; pay dividends and make certain other restricted payments;





make certain investments; make payments on any subordinated debt; and enter into transactions with any of our affiliates outside of the ordinary course of business or permit our subsidiaries to do the same. In addition, subject to certain exceptions, we are required to maintain with SVB our primary deposit accounts, securities accounts and commodities, and to do the same for our domestic subsidiary.

The Loan Agreement also contains customary indemnification obligations and customary events of default, including, among other things, our failure to fulfill certain of our obligations under the Loan Agreement and the occurrence of a material adverse change which is defined as a material adverse change in our business, operations or condition (financial or otherwise), a material impairment of the prospect of repayment of any portion of the loan, or a material impairment in the perfection or priority of lender's lien in the collateral or in the value of such collateral. In the event of default by us under the Loan Agreement, the Lenders would be entitled to exercise their remedies thereunder, including the right to accelerate the debt, upon which we may be required to repay all amounts then outstanding under the Loan Agreement, which could harm our financial condition.

#### Off-Balance Sheet Arrangements

As of December 31, 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we did not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

#### Contractual Obligations

As of December 31, 2014, future minimum payments due under our contractual obligations are as follows (in thousands):

|  | Payments Due by Period |                     |           |           |                      |
|--|------------------------|---------------------|-----------|-----------|----------------------|
|  | Total                  | Less than<br>1 Year | 1-3 Years | 4-5 Years | More than<br>5 Years |
| Contractual Obligations <sup>(1,5)</sup>             |                        |                     |           |           |                      |
| Long-term debt, including interest <sup>(2)</sup>    | \$62,366               | \$3,775             | \$58,591  | \$—       | \$—                  |
| Operating leases <sup>(3)</sup>                      | 6,519                  | 2,133               | 4,386     | —         | —                    |
| License payments                                     | 250                    | 250                 | —         | —         | —                    |
| Third-party manufacturing obligations <sup>(4)</sup> | 13,104                 | 13,104              | —         | —         | —                    |
| Purchase obligations                                 | 456                    | 230                 | 226       | —         | —                    |
| Total  | \$82,695               | \$19,492            | \$63,203  | \$—       | \$—                  |

Does not include milestone or contractual payment obligations contingent upon the achievement of certain milestones or events if the amount and timing of such obligations are unknown or uncertain. Our in-license agreement is cancelable with written notice within 90 days. We may be required to pay up to approximately \$9.3 million in milestone payments, plus sales royalties, in the event that all scientific research under these agreements is successful.

(2) Long-term debt obligations include future monthly interest payments based on a fixed rate of 7.55% and a final payment of \$4.25 million for our long-term debt due in January 2018.

(3) Includes minimum lease payments related to leases of our office and research facilities and certain autos under non-cancelable operating leases.

We have contracted with third-party manufacturers for the supply of bulk rHuPH20 and fill/finish of Hylenex recombinant. Under these agreements, we are required to purchase certain quantities each year during the terms of the agreements. The amounts presented represent our estimates of the minimum required payments under these agreements.

(5) Excludes contractual obligations already recorded on our consolidated balance sheet as current liabilities.



Contractual obligations for purchases of goods or services include agreements that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. For obligations with cancellation provisions, the amounts included in the preceding table were limited to the non-cancelable portion of the agreement terms or the minimum cancellation fee.

For the restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. The obligation to pay the relevant taxing authority is not included in the preceding table, as the amount is contingent upon continued employment. In addition, the amount of the obligation is unknown, as it is based in part on the market price of our common stock when the awards vest.

The expected timing of payments of the obligations above is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

Our future capital uses and requirements depend on numerous forward-looking factors. These factors may include, but are not limited to, the following:

- the rate of progress and cost of research and development activities;
- the number and scope of our research activities;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- our ability to establish and maintain product discovery and development collaborations, including scale-up manufacturing costs for our collaborators' product candidates;
- the amount of royalties from our collaborators;
- the amount of product sales for Hylenex recombinant;
- the costs of obtaining and validating additional manufacturers of Hylenex recombinant;
- the effect of competing technological and market developments;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish; and
- the extent to which we acquire or in-license new products, technologies or businesses.

#### Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our consolidated financial statements.

#### Revenue Recognition

We generate revenues from product sales and collaborative agreements. Payments received under collaborative agreements may include nonrefundable fees at the inception of the agreements, license fees, milestone payments for specific achievements designated in the collaborative agreements, reimbursements of research and development services and supply of bulk rHuPH20 and/or royalties on sales of products resulting from collaborative arrangements. We recognize revenue in accordance with the authoritative guidance on revenue recognition. Revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectibility is reasonably assured.

Refer to Note 2 for a further discussion of our revenue recognition policies for product sales and revenues under our collaborative agreements and Note 4 for a further discussion of our collaborative agreements.

#### Share-Based Payments

We use the fair value method to account for share-based payments in accordance with the authoritative guidance for share-based compensation. The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option pricing model (Black-Scholes model) that uses assumptions regarding a number of complex and subjective variables. Changes in these assumptions may lead to variability with respect to the amount of expense we recognize in connection with share-based payments. Refer to Note 2 for a further discussion of share-based payments.

#### Research and Development Expenses

Research and development expenses include salaries and benefits, facilities and other overhead expenses, external clinical trial expenses, research related manufacturing services, contract services and other outside expenses. Research and development expenses are charged to operations as incurred when these expenditures relate to our research and development efforts and have no alternative future uses. After receiving marketing approval from the FDA or comparable regulatory agencies in foreign countries for a product, costs related to purchases or manufacturing of bulk rHuPH20 for such product are capitalized as inventory. The manufacturing costs of bulk rHuPH20 for the collaboration products, Herceptin SC, MabThera SC and HYQVIA, which were incurred after the receipt of the European marketing approvals are capitalized as inventory. Refer to Note 2 for a further discussion of research and development expenses.

Due to the uncertainty in obtaining the FDA and other regulatory approvals, our reliance on third parties and competitive pressures, we are unable to estimate with any certainty the additional costs we will incur in the continued development of our proprietary product candidates for commercialization. However, we expect our research and development expenses to increase this year as we continue with our clinical trial programs and continue to develop and manufacture our product candidates.

Clinical development timelines, likelihood of success and total costs vary widely. We anticipate that we will make ongoing determinations as to which research and development projects to pursue and how much funding to direct to each project on an ongoing basis in response to existing resource levels, the scientific and clinical progress of each product candidate, and other market and regulatory developments. We plan on focusing our resources on those proprietary and collaboration product candidates that represent the most valuable economic and strategic opportunities.

Product candidate completion dates and costs vary significantly for each product candidate and are difficult to estimate. The lengthy process of seeking regulatory approvals and the subsequent compliance with applicable regulations require the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining, regulatory approvals could cause our research and development expenditures to increase and, in turn, have a material adverse effect on our results of operations. We cannot be certain when, or if, our product candidates will receive regulatory approval or whether any net cash inflow from our other product candidates, or development projects, will commence.

#### Recent Accounting Pronouncements

Refer to Note 2, Summary of Significant Accounting Policies - Pending Adoption of Recent Accounting Pronouncements, for a discussion of recent accounting pronouncements and their effect, if any, on us.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As of December 31, 2014, our cash equivalents and marketable securities consisted of investments in money market funds and corporate debt obligations. These investments were made in accordance with our investment policy which specifies the categories, allocations, and ratings of securities we may consider for investment. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. Some of the financial instruments that we invest in could be subject to market risk. This means that a change in prevailing interest rates may cause the value of the instruments to fluctuate. For example, if we purchase a security that was issued with a fixed interest rate and the prevailing interest rate later rises, the value of that security will probably decline. As of December 31, 2014 based on our current investment portfolio, we do not believe that our results of operations would be materially impacted by an immediate change of 10% in interest rates.

We do not hold or issue derivatives, derivative commodity instruments or other financial instruments for speculative trading purposes. Further, we do not believe our cash, cash equivalents and marketable securities have significant risk of default or illiquidity. We made this determination based on discussions with our investment advisors and a review of our holdings. While we believe our cash, cash equivalents and marketable securities do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. All of our cash equivalents and marketable securities are recorded at fair market value.

#### Item 8. Financial Statements and Supplementary Data

Our financial statements are annexed to this report beginning on page F-1.

#### Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

#### Item 9A. Control and Procedures

##### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the timelines specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decision regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

##### Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and Rule 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework) (the COSO criteria). Based on our assessment, management concluded that, as of December 31, 2014, our internal control over financial reporting is effective based on the COSO criteria.

The independent registered public accounting firm that audited the consolidated financial statements that are included in this Annual Report on Form 10-K has issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2014. The report appears below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Halozyyme Therapeutics, Inc.

We have audited Halozyyme Therapeutics, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Halozyyme Therapeutics, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Halozyyme Therapeutics, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Halozyyme Therapeutics, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, cash flows, and stockholders' equity (deficit) for each of the three years in the period ended December 31, 2014 of Halozyyme Therapeutics, Inc. and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California  
March 2, 2015



Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item regarding directors is incorporated by reference to our definitive Proxy Statement (the Proxy Statement) to be filed with the Securities and Exchange Commission in connection with our 2015 Annual Meeting of Stockholders under the heading “Election of Directors.” The information required by this item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated by reference to the information under the caption “Compliance with Section 16(a) of the Exchange Act” to be contained in the Proxy Statement. The information required by this item regarding our code of ethics is incorporated by reference to the information under the caption “Code of Conduct and Ethics” to be contained in the Proxy Statement. The information required by this item regarding our audit committee is incorporated by reference to the information under the caption “Board Meetings and Committees—Audit Committee” to be contained in the Proxy Statement. The information required by this item regarding material changes, if any, to the process by which stockholders may recommend nominees to our board of directors is incorporated by reference to the information under the caption “Board Meetings and Committees—Nominating and Governance Committee” to be contained in the Proxy Statement.

Executive Officers

Helen I. Torley, M.B. Ch. B., M.R.C.P. (52), President, Chief Executive Officer and Director. Dr. Torley joined Halozyme in January 2014 as President and Chief Executive Officer, and is a member of Halozyme’s Board of Directors. Throughout her career, Dr. Torley has led several successful product launches, including Kyprolis<sup>®</sup>, Prolia<sup>®</sup>, Sensipar<sup>®</sup>, and Miacalcin<sup>®</sup>. Dr. Torley previously served as Executive Vice President and Chief Commercial Officer for Onyx Pharmaceuticals (Onyx) overseeing the collaboration with Bayer on Nexavar<sup>®</sup> and Stivarga<sup>®</sup> and the U.S. launch of Kyprolis. She was responsible for the development of Onyx’s commercial capabilities in ex-US markets and in particular, in Europe. Prior to Onyx, Dr. Torley spent 14 years in management positions at Amgen Inc., serving as General Manager of both the US Nephrology Business Unit and the U.S. Bone Health Business Unit. From 1997 to 2002, she held various senior management positions at Bristol-Myers Squibb, including Regional Vice President of Cardiovascular and Metabolic Sales and Head of Cardiovascular Global Marketing. She began her career at Sandoz/Novartis, where she ultimately served as Vice President of Medical Affairs, developing and conducting post-marketing clinical studies across all therapeutic areas, including oncology. Before joining the industry, Dr. Torley was in medical practice as a senior registrar in rheumatology at the Royal Infirmary in Glasgow, Scotland. Dr. Torley received her Bachelor of Medicine and Bachelor of Surgery degrees (M.B. Ch.B.) from the University of Glasgow and is a Member of the Royal College of Physicians (M.R.C.P).

David A. Ramsay (50), Vice President, Chief Financial Officer. Mr. Ramsay joined Halozyme in 2003 as Chief Financial Officer and served in that capacity until 2009 when he was appointed Vice President, Corporate Development. After spending four years in various commercial and operational roles, Mr. Ramsay was appointed Chief Financial Officer. Prior to Halozyme, he served in various financial roles including Vice President, Chief Financial Officer of Lathian Systems. Prior to Lathian, Mr. Ramsay was Vice President, Treasurer of ICN Pharmaceuticals, now called Valeant Pharmaceuticals International, a multinational, specialty pharmaceutical company. Mr. Ramsay joined Valeant from ARCO, where he spent four years in various financial roles, most recently serving as Manager, Financial Planning & Analysis for the company’s Retail Marketing division. Prior to ARCO, he served as Vice President, Controller for Security Pacific Asian Bank, a subsidiary of Security Pacific Corporation. He began his career as an Auditor at Deloitte & Touche, where he obtained his CPA license. Mr. Ramsay received his B.S in Business Administration from the University of California, Berkeley, and his MBA in Finance and Strategic Management from The Wharton School at the University of Pennsylvania.

Athena Countouriotis, M.D. (43), Senior Vice President, Chief Medical Officer. Dr. Countouriotis joined Halozyme in 2015. From February 2012 to January 2015, Dr. Countouriotis served as chief medical officer at Ambit Biosciences Corporation which was acquired by Daiichi Sankyo in November 2014. From August 2007 to February 2012, Dr. Countouriotis was a clinical leader within the Pfizer Inc. Oncology Business Unit. From October 2005 to August 2007, she was director of oncology global clinical research at Bristol-Myers Squibb Company, a publicly-traded global pharmaceutical company, with responsibility for leading clinical development of Sprycel® in acute lymphoblastic leukemia and chronic myeloid leukemia. Earlier in her career, she held the position as associate medical director at Cell Therapeutics, Inc., a biopharmaceutical company. Dr. Countouriotis received a B.S. from the University of California, Los Angeles, and an M.D. at Tufts University School of Medicine. She received her initial training in pediatrics at the University of California, Los Angeles, and additional training at the Fred Hutchinson Cancer Research Center in the Pediatric Hematology/Oncology Program.

#### Item 11. Executive Compensation

The information required by this item is incorporated by reference to the information under the caption “Executive Compensation” to be contained in the Proxy Statement.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Other than as set forth below, the information required by this item is incorporated by reference to the information under the caption “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” to be contained in the Proxy Statement.

#### Equity Compensation Plan Information

The following table summarizes our compensation plans under which our equity securities are authorized for issuance as of December 31, 2014:

| Plan Category   | Number of Shares to Be Issued upon Exercise of Outstanding Options and Restricted Stock Units (a) | Weighted-Average Exercise Price of Outstanding Options and Restricted Stock Units <sup>(2)</sup> (b) | Number of Shares Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c) |
|---|---|--|---|
| Equity compensation plans approved by stockholders <sup>(1)</sup> | 7,247,452   | \$9.18   | 4,681,212   |
| Equity compensation plans not approved by stockholders            | —   | —  | —   |
|   | 7,247,452   | \$9.18   | 4,681,212   |

<sup>(1)</sup> Represents stock options and restricted stock units under the Amended and Restated 2011 Stock Plan, 2008 Stock Plan, 2006 Stock Plan, 2005 Outside Directors’ Stock Plan, and 2004 Stock Plan.

<sup>(2)</sup> This amount does not include restricted stock units as there is no exercise price for restricted stock units.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the information under the caption “Certain Relationships and Related Transactions” to be contained in the Proxy Statement.

#### Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the information under the caption “Principal Accounting Fees and Services” to be contained in the Proxy Statement.



PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report.

1. Financial Statements

|   | Page |
|---|------|
| Report of Independent Registered Public Accounting Firm   | F-1  |
| Consolidated Balance Sheets at December 31, 2014 and 2013   | F-2  |
| Consolidated Statements of Operations for Each of the Years Ended December 31, 2014, 2013<br>and 2012                     | F-3  |
| Consolidated Statements of Comprehensive Loss for Each of the Years Ended December 31, 2014, 2013<br>and 2012             | F-4  |
| Consolidated Statements of Cash Flows for Each of the Years Ended December 31, 2014, 2013 and 2012                        | F-5  |
| Consolidated Statements of Stockholders' Equity (Deficit) for Each of the Years Ended December 31,<br>2014, 2013 and 2012 | F-6  |
| Notes to the Consolidated Financial Statements  | F-7  |

2. List of all Financial Statement schedules.

The following financial statement schedule of Halozyme Therapeutics, Inc. is filed as part of this Annual Report on Form 10-K on page F-33 and should be read in conjunction with the consolidated financial statements of Halozyme Therapeutics, Inc.

Schedule II: Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or notes thereto.

3. List of Exhibits required by Item 601 of Regulation S-K. See part (b) below.

(b) Exhibits.

The exhibits listed in the accompanying "Exhibit Index" are incorporated herein by reference.

(c) Financial Statement Schedules. See Item 15(a) 2 above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Halozyme Therapeutics, Inc.,  
a Delaware corporation

Date: March 2, 2015

By: /s/ Helen I. Torley, M.B. Ch.B., M.R.C.P.  
Helen I. Torley, M.B. Ch.B., M.R.C.P.  
President and Chief Executive Officer

## POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Helen I. Torley and David A. Ramsay, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substituted, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature  | Title  | Date          |
|--|--|---------------|
| /s/ Helen I. Torley, M.B. Ch.B., M.R.C.P.<br>Helen I. Torley, M.B. Ch.B., M.R.C.P. | President and Chief Executive Officer<br>(Principal Executive Officer), Director           | March 2, 2015 |
| /s/ David A. Ramsay<br>David A. Ramsay   | Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | March 2, 2015 |
| /s/ Kathryn E. Falberg<br>Kathryn E. Falberg                                       | Chair of the Board of Directors  | March 2, 2015 |
| /s/ Jean-Pierre Bizzari<br>Jean-Pierre Bizzari                                     | Director   | March 2, 2015 |
| /s/ Kenneth J. Kelley<br>Kenneth J. Kelley   | Director   | March 2, 2015 |
| /s/ Randal J. Kirk<br>Randal J. Kirk   | Director   | March 2, 2015 |
| /s/ Connie L. Matsui<br>Connie L. Matsui   | Director   | March 2, 2015 |
| /s/ John S. Patton, Ph.D.<br>John S. Patton, Ph.D.                                 | Director   | March 2, 2015 |
| /s/ Matthew L. Posard<br>Matthew L. Posard   | Director   | March 2, 2015 |

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Halozyme Therapeutics, Inc.

We have audited the accompanying consolidated balance sheets of Halozyme Therapeutics, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, cash flows, and stockholders' equity (deficit) for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Halozyme Therapeutics, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Halozyme Therapeutics, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 2, 2015

HALOZYME THERAPEUTICS, INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share data)

|  | December 31,<br>2014 | December 31,<br>2013 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents  | \$61,389             | \$27,357             |
| Marketable securities, available-for-sale  | 74,234               | 44,146               |
| Accounts receivable, net   | 9,149                | 9,097                |
| Inventories  | 6,406                | 6,170                |
| Prepaid expenses and other assets  | 10,143               | 8,425                |
| Total current assets   | 161,321              | 95,195               |
| Property and equipment, net  | 2,951                | 3,422                |
| Prepaid expenses and other assets  | 1,205                | 2,676                |
| Restricted cash  | 500                  | 500                  |
| Total assets   | \$165,977            | \$101,793            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable   | \$3,003              | \$3,135              |
| Accrued expenses   | 13,961               | 14,369               |
| Deferred revenue, current portion  | 7,367                | 7,398                |
| Total current liabilities  | 24,331               | 24,902               |
| Deferred revenue, net of current portion   | 47,267               | 45,745               |
| Long-term debt, net  | 49,860               | 49,772               |
| Other long-term liabilities  | 3,167                | 1,364                |
| Commitments and contingencies (Note 9)   |                      |                      |
| Stockholders' equity (deficit):  |                      |                      |
| Preferred stock — \$0.001 par value; 20,000 shares authorized; no shares issued and outstanding  | —                    | —                    |
| Common stock — \$0.001 par value; 200,000 shares authorized; 125,721 and 114,534 shares issued and outstanding at December 31, 2014 and 2013, respectively | 126                  | 115                  |
| Additional paid-in capital   | 491,694              | 361,930              |
| Accumulated other comprehensive (loss) income  | (41                  | ) 17                 |
| Accumulated deficit  | (450,427             | ) (382,052           |
| Total stockholders' equity (deficit)   | 41,352               | (19,990              |
| Total liabilities and stockholders' equity (deficit)   | \$165,977            | \$101,793            |
| See accompanying notes to consolidated financial statements.   |                      |                      |



HALOZYME THERAPEUTICS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)

|   | Year Ended December 31, |             |             |
|---|-------------------------|-------------|-------------|
|   | 2014                    | 2013        | 2012        |
| Revenues:   |                         |             |             |
| Product sales, net  | \$37,823                | \$24,439    | \$2,887     |
| Revenues under collaborative agreements                       | 28,086                  | 30,327      | 39,438      |
| Royalties   | 9,425                   | 33          | —           |
| Total revenues  | 75,334                  | 54,799      | 42,325      |
| Operating expenses:   |                         |             |             |
| Cost of product sales   | 22,732                  | 6,246       | 1,094       |
| Research and development                                      | 79,696                  | 96,640      | 70,044      |
| Selling, general and administrative                           | 35,942                  | 32,347      | 24,812      |
| Total operating expenses                                      | 138,370                 | 135,233     | 95,950      |
| Operating loss  | (63,036                 | ) (80,434   | ) (53,625   |
| Other income (expense):                                       |                         |             |             |
| Investment and other income, net                              | 242                     | 229         | 73          |
| Interest expense  | (5,581                  | ) (3,274    | ) —         |
| Net loss  | \$(68,375               | ) \$(83,479 | ) \$(53,552 |
| Basic and diluted net loss per share                          | \$(0.56                 | ) \$(0.74   | ) \$(0.48   |
| Shares used in computing basic and diluted net loss per share | 122,690                 | 112,805     | 111,077     |
| See accompanying notes to consolidated financial statements.  |                         |             |             |

HALOZYME THERAPEUTICS, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
 (in thousands)

|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2014                    | 2013        | 2012        |
| Net loss   | \$(68,375               | ) \$(83,479 | ) \$(53,552 |
| Other comprehensive (loss) income:                           |                         |             |             |
| Unrealized (loss) gain on marketable securities              | (58                     | ) 17        | —           |
| Total comprehensive loss                                     | \$(68,433               | ) \$(83,462 | ) \$(53,552 |
| See accompanying notes to consolidated financial statements. |                         |             |             |

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HALOZYME THERAPEUTICS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2014                    | 2013        | 2012        |
| Operating activities:  |                         |             |             |
| Net loss   | \$(68,375               | ) \$(83,479 | ) \$(53,552 |
| Adjustments to reconcile net loss to net cash used in operating activities:          |                         |             |             |
| Share-based compensation   | 15,274                  | 9,538       | 8,349       |
| Depreciation and amortization  | 1,762                   | 1,227       | 1,079       |
| Non-cash interest expense  | 2,025                   | 156         | 9           |
| Amortization of premiums on marketable securities, net                               | 1,457                   | 1,116       | —           |
| Loss on disposal of equipment  | 233                     | —           | 7           |
| Changes in operating assets and liabilities:   |                         |             |             |
| Accounts receivable, net   | (52                     | ) 6,606     | (13,441     |
| Inventories  | (236                    | ) (3,499    | ) (2,103    |
| Prepaid expenses and other assets  | (265                    | ) 1,959     | (4,421      |
| Restricted cash  | —                       | (100        | ) 50        |
| Accounts payable and accrued expenses  | (816                    | ) 7,888     | (3,263      |
| Deferred revenue   | 1,490                   | 9,297       | 2,962       |
| Other liabilities  | (15                     | ) (48       | ) 45        |
| Net cash used in operating activities  | (47,518                 | ) (49,339   | ) (64,279   |
| Investing activities:  |                         |             |             |
| Purchases of marketable securities   | (88,884                 | ) (48,947   | ) —         |
| Proceeds from maturities of marketable securities                                    | 57,301                  | 3,375       | —           |
| Purchases of property and equipment  | (1,368                  | ) (2,297    | ) (1,413    |
| Net cash used in investing activities  | (32,951                 | ) (47,869   | ) (1,413    |
| Financing activities:  |                         |             |             |
| Proceeds from issuance of common stock, net  | 107,713                 | —           | 81,477      |
| Proceeds from issuance of common stock under equity incentive plans, net             | 6,788                   | 5,079       | 1,680       |
| Proceeds from issuance of long-term debt, net  | —                       | 19,985      | 29,661      |
| Net cash provided by financing activities  | 114,501                 | 25,064      | 112,818     |
| Net increase (decrease) in cash and cash equivalents                                 | 34,032                  | (72,144     | ) 47,126    |
| Cash and cash equivalents at beginning of period                                     | 27,357                  | 99,501      | 52,375      |
| Cash and cash equivalents at end of period   | \$61,389                | \$27,357    | \$99,501    |
| Supplemental disclosure of cash flow information:                                    |                         |             |             |
| Interest paid  | \$3,460                 | \$3,099     | \$19        |
| Supplemental disclosure of non-cash investing and financing activities:              |                         |             |             |
| Amounts accrued for purchases of property and equipment                              | \$156                   | \$100       | \$154       |
| Capitalized property and liability associated with a build-to-suit lease arrangement | \$—                     | \$(1,450    | ) \$1,450   |

See accompanying notes to consolidated financial statements.



HALOZYME THERAPEUTICS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
(in thousands)

|   | Common Stock |        | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity<br>(Deficit) |
|---|--------------|--------|----------------------------------|--|------------------------|---|
|   | Shares       | Amount |                                  |  |                        |   |
| BALANCE AT JANUARY 1, 2012  | 103,989      | \$ 104 | \$255,818                        | \$—  | \$(245,021 )           | \$ 10,901                                     |
| Share-based compensation expense  | —            | —      | 8,349                            | —  | —                      | 8,349   |
| Issuance of common stock for cash, net  | 7,820        | 8      | 81,469                           | —  | —                      | 81,477  |
| Issuance of common stock pursuant to exercise of stock options and vesting of restricted stock units, net | 526          | 1      | 1,679                            | —  | —                      | 1,680   |
| Issuance of restricted stock awards   | 374          | —      | —                                | —  | —                      | —   |
| Net loss  | —            | —      | —                                | —  | (53,552 )              | (53,552 )                                     |
| BALANCE AT DECEMBER 31, 2012  | 112,709      | 113    | 347,315                          | —  | (298,573 )             | 48,855  |
| Share-based compensation expense  | —            | —      | 9,538                            | —  | —                      | 9,538   |
| Issuance of common stock pursuant to exercise of stock options and vesting of restricted stock units, net | 1,363        | 1      | 5,078                            | —  | —                      | 5,079   |
| Issuance of restricted stock awards   | 462          | 1      | (1 )                             | —  | —                      | —   |
| Other comprehensive income  | —            | —      | —                                | 17   | —                      | 17  |
| Net loss  | —            | —      | —                                | —  | (83,479 )              | (83,479 )                                     |
| BALANCE AT DECEMBER 31, 2013  | 114,534      | 115    | 361,930                          | 17   | (382,052 )             | (19,990 )                                     |
| Share-based compensation expense  | —            | —      | 15,274                           | —  | —                      | 15,274  |
| Issuance of common stock for cash, net  | 8,846        | 9      | 107,704                          | —  | —                      | 107,713                                       |
| Issuance of common stock pursuant to exercise of stock options and vesting of restricted stock units, net | 1,552        | 1      | 6,787                            | —  | —                      | 6,788   |
| Issuance of restricted stock awards   | 789          | 1      | (1 )                             | —  | —                      | —   |
| Other comprehensive loss  | —            | —      | —                                | (58 )  | —                      | (58 )   |
| Net loss  | —            | —      | —                                | —  | (68,375 )              | (68,375 )                                     |
| BALANCE AT DECEMBER 31, 2014  | 125,721      | \$ 126 | \$491,694                        | \$(41 )  | \$(450,427 )           | \$41,352                                      |

See accompanying notes to consolidated financial statements.

Halozyme Therapeutics, Inc.

Notes to Consolidated Financial Statements

### 1. Organization and Business

Halozyme Therapeutics, Inc. is seeking to translate our unique knowledge of the tumor microenvironment to create novel therapies that can improve cancer survival. Our research focuses on human enzymes that alter the extracellular matrix and tumor microenvironment. The extracellular matrix is a complex matrix of proteins and carbohydrates surrounding the cell that provides structural support in tissues and orchestrates many important biological activities, including cell migration, signaling and survival. Over many years, we have developed unique technology and scientific expertise enabling us to pursue this target-rich environment for the development of therapies.

Our proprietary enzymes can be used to facilitate the delivery of injected drugs and fluids, potentially enhancing the efficacy and the convenience of other drugs or can be used to alter abnormal tissue structures for clinical benefit. We have chosen to exploit our technology and expertise in a balanced way to modulate both risk and spend by: (1) developing our own proprietary products in therapeutic areas with significant unmet medical needs, with a focus on oncology, and (2) licensing our technology to biopharmaceutical companies to collaboratively develop products which combine our technology with the collaborators' proprietary compounds.

The majority of our approved product and product candidates are based on rHuPH20, our patented recombinant human hyaluronidase enzyme. rHuPH20 temporarily breaks down hyaluronic acid (HA), a naturally occurring substance that is a major component of the extracellular matrix in tissues throughout the body such as skin and cartilage. We believe this temporary degradation creates an opportunistic window for the improved subcutaneous delivery of injectable biologics, such as monoclonal antibodies and other large therapeutic molecules, as well as small molecules and fluids. We refer to the application of rHuPH20 to facilitate the delivery of other drugs or fluids as Enhanze™ technology. rHuPH20 is also the active ingredient in our first commercially approved product, Hylenex® recombinant.

Our proprietary development pipeline consists primarily of clinical stage product candidates in oncology and diabetes. Our lead oncology program is PEGPH20 (PEGylated recombinant human hyaluronidase), a new molecular entity, under development for the systemic treatment of tumors that accumulate HA. When HA accumulates in a tumor, it can cause higher pressure in the tumor, reducing blood flow into the tumor and with that, reduced access of cancer therapies to the tumor. PEGPH20 works by temporarily degrading HA surrounding some cancer cells and results in reduced pressure and increased blood flow to the cancer with increased amounts of anticancer treatments administered concomitantly gaining access to the tumor. We are currently in Phase 2 clinical testing for PEGPH20 in metastatic pancreatic cancer (Study 109-202), and we have recently initiated a clinical trial in non-small cell lung cancer (Study 107-201).

Regarding Enhanze, we currently have collaborations with F. Hoffmann-La Roche, Ltd. and Hoffmann-La Roche, Inc. (Roche), Baxter Healthcare Corporation (Baxter), Pfizer Inc. (Pfizer) and Janssen Biotech, Inc. (Janssen), with one product approved in the U.S. and three products approved for marketing in Europe from which we are receiving royalties and several others at various stages of development.

Except where specifically noted or the context otherwise requires, references to “Halozyme,” “the Company,” “we,” “our,” and “us” in these Notes to Consolidated Financial Statements refer to Halozyme Therapeutics, Inc. and its wholly owned subsidiary, Halozyme, Inc., and Halozyme, Inc.'s wholly owned subsidiary, Halozyme Holdings Ltd.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The consolidated financial statements include the accounts of Halozyme Therapeutics, Inc. and our wholly owned subsidiary, Halozyme, Inc., and Halozyme, Inc.'s wholly owned subsidiary, Halozyme Holdings Ltd. All intercompany accounts and transactions have been eliminated.

### Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. Specifically, we have reclassified \$0.6 million from accrued expenses to other long-term liabilities in the consolidated balance sheet at December 31, 2013.

### Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates and judgments, which are based on historical and anticipated results and trends and on various other assumptions that management believes to be reasonable under the circumstances. By their nature, estimates are subject to an inherent degree of uncertainty and, as such, actual results may differ from management's estimates.

### Cash Equivalents and Marketable Securities

Cash equivalents consist of highly liquid investments, readily convertible to cash, that mature within ninety days or less from date of purchase. Our cash equivalents consist of money market funds.

Marketable securities are investments with original maturities of more than ninety days from the date of purchase that are specifically identified to fund current operations. Marketable securities are considered available-for-sale. These investments are classified as current assets, even though the stated maturity date may be one year or more beyond the current balance sheet date which reflects management's intention to use the proceeds from the sale of these investments to fund our operations, as necessary. Such available-for-sale investments are carried at fair value with unrealized gains and losses recorded in other comprehensive gain (loss) and included as a separate component of stockholders' equity (deficit). The cost of marketable securities is adjusted for amortization of premiums or accretion of discounts to maturity, and such amortization or accretion is included in investment and other income, net in the consolidated statements of operations. We use the specific identification method for calculating realized gains and losses on marketable securities sold. Realized gains and losses and declines in value judged to be other-than-temporary on marketable securities, if any, are included in investment and other income, net in the consolidated statements of operations.

### Restricted Cash

Under the terms of the leases on our facilities, we are required to maintain letters of credit as security deposits during the terms of such leases. At December 31, 2014 and 2013, restricted cash of \$0.5 million was pledged as collateral for the letters of credit.

### Fair Value of Financial Instruments

The authoritative guidance for fair value measurements establishes a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Our financial instruments include cash equivalents, available-for-sale marketable securities, accounts receivable, prepaid expenses, accounts payable, accrued expenses and long-term debt. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. The carrying amount of cash equivalents,





accounts receivable, prepaid expenses, accounts payable and accrued expenses are generally considered to be representative of their respective fair values because of the short-term nature of those instruments. Further, based on the borrowing rates currently available for loans with similar terms, we believe the fair value of long-term debt approximates its carrying value.

Available-for-sale marketable securities consist of corporate debt securities, commercial paper and certificates of deposit and were measured at fair value using Level 2 inputs. Level 2 financial instruments are valued using market prices on less active markets and proprietary pricing valuation models with observable inputs, including interest rates, yield curves, maturity dates, issue dates, settlement dates, reported trades, broker-dealer quotes, issue spreads, benchmark securities or other market related data. We obtain the fair value of Level 2 investments from our investment manager, who obtains these fair values from a third-party pricing service. We validate the fair values of Level 2 financial instruments provided by our investment manager by comparing these fair values to a third-party pricing source.

The following table summarizes, by major security type, our cash equivalents and marketable securities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

|   | December 31, 2014 |          |                            | December 31, 2013 |          |                            |
|---|-------------------|----------|----------------------------|-------------------|----------|----------------------------|
|   | Level 1           | Level 2  | Total estimated fair value | Level 1           | Level 2  | Total estimated fair value |
| Cash equivalents:                         |                   |          |                            |                   |          |                            |
| Money market funds                        | \$42,685          | \$—      | \$42,685                   | \$5,711           | \$—      | \$5,711                    |
| Available-for-sale marketable securities: |                   |          |                            |                   |          |                            |
| Corporate debt securities                 | —                 | 74,234   | 74,234                     | —                 | 35,147   | 35,147                     |
| Commercial paper                          | —                 | —        | —                          | —                 | 5,999    | 5,999                      |
| Certificate of deposit                    | —                 | —        | —                          | —                 | 3,000    | 3,000                      |
|   | \$42,685          | \$74,234 | \$116,919                  | \$5,711           | \$44,146 | \$49,857                   |

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2014 and 2013. We have no instruments that are classified within Level 3 as of December 31, 2014 and 2013.

#### Concentrations of Credit Risk, Sources of Supply and Significant Customers

We are subject to credit risk from our portfolio of cash equivalents and marketable securities. These investments were made in accordance with our investment policy which specifies the categories, allocations, and ratings of securities we may consider for investment. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. We maintain our cash and cash equivalent balances with one major commercial bank and marketable securities with another financial institution. Deposits held with the financial institutions exceed the amount of insurance provided on such deposits. We are exposed to credit risk in the event of a default by the financial institutions holding our cash, cash equivalents and marketable securities to the extent recorded on the balance sheet.

We are also subject to credit risk from our accounts receivable related to our product sales and revenues under our license and collaborative agreements. We have license and collaborative agreements with pharmaceutical companies under which we receive payments for license fees, milestone payments for specific achievements designated in the collaborative agreements, reimbursements of research and development services and supply of bulk formulation of rHuPH20. In addition, we sell Hylenex® recombinant in the United States to a limited number of established wholesale distributors in the pharmaceutical industry. Credit is extended based on an evaluation of the customer's financial condition, and collateral is not required. Management monitors our exposure to accounts receivable by periodically evaluating the collectibility of the accounts receivable based on a variety of factors including the length of time the receivables are past due, the financial health of the customer and historical experience. Based upon the review of these factors, we recorded no allowance for doubtful accounts at December 31, 2014 and 2013. Approximately 76% and 81% of the accounts receivable balance at December 31, 2014 and 2013, respectively, represents amounts due

from Roche and Pfizer.

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The following table indicates the percentage of total revenues in excess of 10% with any single customer:

|         | Year Ended December 31, |      |      |
|---------|-------------------------|------|------|
|         | 2014                    | 2013 | 2012 |
| Roche   | 57%                     | 64%  | 45%  |
| Janssen | 20%                     | —    | —    |
| Baxter  | 3%                      | 10%  | 17%  |
| Pfizer  | 1%                      | 4%   | 22%  |

We attribute revenues under collaborative agreements to the individual countries where the collaborator is headquartered. We attribute revenues from product sales to the individual countries to which the product is shipped. Worldwide revenues from external customers are summarized by geographic location in the following table (in thousands):

|                   | Year Ended December 31, |          |          |
|-------------------|-------------------------|----------|----------|
|                   | 2014                    | 2013     | 2012     |
| United States     | \$31,397                | \$19,019 | \$22,724 |
| Switzerland       | 42,791                  | 35,157   | 18,913   |
| All other foreign | 1,146                   | 623      | 688      |
| Total revenues    | \$75,334                | \$54,799 | \$42,325 |

For the years ended December 31, 2014, 2013 and 2012, we had no foreign based operations. As of December 31, 2014 and 2013, we had \$0.4 million and \$0.8 million of research equipment in Germany.

We rely on two third-party manufacturers for the supply of bulk rHuPH20 for use in the manufacture of Hylenex recombinant and our other collaboration products and product candidates. Payments due to these suppliers represented 0% and 9% of the accounts payable balance at December 31, 2014 and 2013, respectively. We also rely on a third-party manufacturer for the fill and finish of Hylenex recombinant product under a contract. Payments due to this supplier represented 6% and 2% of the accounts payable balance at December 31, 2014 and 2013, respectively.

#### Accounts Receivable, Net

Accounts receivable is recorded at the invoiced amount and is non-interest bearing. Accounts receivable is recorded net of allowances for doubtful accounts, cash discounts for prompt payment, distribution fees and chargebacks. We recorded no allowance for doubtful accounts at December 31, 2014 and 2013 as the collectibility of accounts receivable was reasonably assured.

#### Inventories

Inventories are stated at lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories are reviewed periodically for potential excess, dated or obsolete status. Management evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared to quantities on hand, the price we expect to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

Prior to receiving marketing approval from the U.S. Food and Drug Administration (“FDA”) or comparable regulatory agencies in foreign countries, costs related to purchases of bulk rHuPH20 and raw materials and the manufacturing of the product candidates are recorded as research and development expense. All direct manufacturing costs incurred after receiving marketing approval are capitalized as inventory. Inventories used in clinical trials are expensed at the time the inventories are packaged for the clinical trials.

As of December 31, 2014 and 2013, inventories consisted of \$3.0 million and \$2.6 million of Hylenex recombinant inventory, respectively, and \$3.4 million and \$3.5 million of bulk rHuPH20, respectively, for use in the manufacture of Roche's collaboration products. Roche received European marketing approval for Herceptin SC<sup>®</sup> and MabThera<sup>®</sup> SC in August 2013 and March 2014, respectively. As such, direct manufacturing costs of bulk rHuPH20 for these collaboration products incurred after the receipt of the European marketing approvals are capitalized as inventory.

#### Property and Equipment, Net

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Equipment is depreciated using the straight-line method over their estimated useful lives of three years and leasehold improvements are amortized using the straight-line method over the estimated useful life of the asset or the lease term, whichever is shorter. Leased buildings under build-to-suit lease arrangements are capitalized and included in property and equipment when we are involved in the construction of the structural improvements or take construction risk prior to the commencement of the lease. Upon completion of the construction under the build-to-suit leases, we assess whether those arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If we continue to be the deemed owner, the facilities would be accounted for as financing leases.

#### Impairment of Long-Lived Assets

We account for long-lived assets in accordance with authoritative guidance for impairment or disposal of long-lived assets. Long-lived assets are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. For the year ended December 31, 2014, we recorded an impairment of \$0.2 million relating to manufacturing equipment. For the year ended December 31, 2013, there was no impairment of the value of long-lived assets.

#### Deferred Rent

Rent expense is recorded on a straight-line basis over the initial term of the lease. The difference between rent expense accrued and amounts paid under lease agreements is recorded as deferred rent in the accompanying consolidated balance sheets.

#### Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during the period from transactions and other events and circumstances from non-owner sources.

#### Revenue Recognition

We generate revenues from product sales and collaborative agreements. Payments received under collaborative agreements may include nonrefundable fees at the inception of the agreements, license fees, milestone payments for specific achievements designated in the collaborative agreements, reimbursements of research and development services and supply of bulk rHuPH20, and/or royalties on sales of products resulting from collaborative arrangements. We recognize revenues in accordance with the authoritative guidance for revenue recognition. We recognize revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectibility is reasonably assured.

#### Product Sales, Net

##### Hylenex Recombinant

In December 2011, we reintroduced Hylenex recombinant to the market. We sell Hylenex recombinant in the U.S. to wholesale pharmaceutical distributors, who sell the product to hospitals and other end-user customers. Sales to wholesalers provide for selling prices that are fixed on the date of sale, although we offer discounts to certain group purchasing organizations ("GPOs"), hospitals and government programs. The wholesalers take the title to the product, bear the risk of loss of ownership and have economic substance to the inventory. Further, we have no significant obligations for future performance to generate pull-through sales.

Prior to December 31, 2013, Hylenex recombinant had a limited sales history, and we could not reliably estimate expected returns and chargebacks of the product at the time the product was sold to the wholesalers. Accordingly, we deferred the recognition of revenue on sales of Hylenex recombinant to wholesalers, and instead, recognized revenue at the time when evidence existed to confirm that pull-through sales from wholesalers to the hospitals or other end-user customers had occurred or the right of return no longer existed, whichever occurred earlier. At the time product sales revenue was recognized, we recorded allowances for product returns and chargebacks based on our best estimates at the time. Shipments of product that were not recognized as revenue were treated as deferred revenue.



At December 31, 2013, we had developed sufficient historical experience and data to reasonably estimate future returns and chargebacks of Hylenex recombinant. As a result, effective December 31, 2013, we began recognizing Hylenex recombinant product sales and related cost of product sales at the time title transfers to the wholesalers. Upon recognition of revenue from product sales of Hylenex recombinant, we record certain sales reserves and allowances as a reduction to gross revenue. These reserves and allowances include:

**Product Returns.** We allow the wholesalers to return product that is damaged or received in error. In addition, we accept unused product to be returned beginning six months prior to and ending twelve months following product expiration. Our estimates for expected returns of expired products are based primarily on an ongoing analysis of historical return patterns.

**Distribution Fees.** The distribution fees, based on contractually determined rates, arise from contractual agreements we have with certain wholesalers for distribution services they provide with respect to Hylenex recombinant. These fees are generally a fixed percentage of the price of the product purchased by the wholesalers.

**Prompt Payment Discounts.** We offer cash discounts to certain wholesalers as an incentive to meet certain payment terms. We estimate prompt payment discounts based on contractual terms, historical utilization rates, as available, and our expectations regarding future utilization rates.

**Other Discounts and Fees.** We provide discounts to end-user members of certain GPOs under collective purchasing contracts between us and the GPOs. We also provide discounts to certain hospitals, who are members of the GPOs, with which we do not have contracts. The end-user members purchase products from the wholesalers at a contracted discounted price, and the wholesalers then charge back to us the difference between the current retail price and the price the end-users paid for the product. We also incur GPO administrative service fees for these transactions. In addition, we provide predetermined discounts under certain government programs. Our estimate for these chargebacks and fees take into consideration contractual terms, historical utilization rates, as available, and our expectations regarding future utilization rates.

Allowances for product returns and chargebacks are based on amounts owed or to be claimed on the related sales. We believe that our estimated product returns for Hylenex recombinant requires a high degree of judgment and is subject to change based on our experience and certain quantitative and qualitative factors. In order to develop a methodology to reliably estimate future returns and provide a basis for recognizing revenue on sales to wholesale distributors, we analyzed many factors, including, without limitation: (1) actual Hylenex recombinant product return history, taking into account product expiration dating at the time of shipment, (2) re-order activities of the wholesalers as well as their customers and (3) levels of inventory at the wholesale channel. We have monitored actual return history on an individual product lot basis since product launch. We considered the dating of product at the time of shipment into the distribution channel and changes in the estimated levels of inventory within the distribution channel to estimate our exposure for returned product. We considered historical chargebacks activity and current contract prices to estimate our exposure for returned product. Based on such data, we believe we have the information needed to reasonably estimate product returns and chargebacks.

We recognize product sales allowances as a reduction of product sales in the same period the related revenue is recognized. Because of the shelf life of Hylenex recombinant and our lengthy return period, there may be a significant period of time between when the product is shipped and when we issue credits on returned product. If actual results differ from our estimates, we will be required to make adjustments to these allowances in the future, which could have an effect on product sales revenue and earnings in the period of adjustments.

#### Bulk rHuPH20

Subsequent to receiving marketing approval from the FDA or comparable regulatory agencies in foreign countries, sales of bulk rHuPH20 for use in collaboration commercial products are recognized as product sales when the materials have met all the specifications required for the customer's acceptance and title and risk of loss have transferred to the customer. Following the receipts of European marketing approvals of Roche's Herceptin SC product in August 2013 and MabThera SC product in March 2014 and Baxter's HYQVIA<sup>®</sup> product in May 2013, revenue from the sales of bulk rHuPH20 for these collaboration products are recognized as product sales. For the years ended December 31, 2014 and 2013, we recognized \$23.5 million and \$13.7 million in product sales of bulk rHuPH20 for Roche's collaboration products, respectively. For the years ended December 31, 2014 and 2013, we recognized zero

and \$1.1 million in product sales of bulk rHuPH20 for Baxter's collaboration product, respectively.

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### Revenues under Collaborative Agreements

We have license and collaboration agreements under which the collaborators obtained worldwide rights for the use of our proprietary rHuPH20 enzyme in the development and commercialization of the collaborators' biologic compounds. The collaborative agreements contain multiple elements including nonrefundable payments at the inception of the arrangement, license fees, exclusivity fees, payments based on achievement of specified milestones designated in the collaborative agreements, annual maintenance fees, reimbursements of research and development services, payments for supply of bulk rHuPH20 for the collaborator and/or royalties on sales of products resulting from collaborative agreements. We analyze each element of our collaborative agreements and consider a variety of factors in determining the appropriate method of revenue recognition of each element.

In order to account for the multiple-element arrangements, we identify the deliverables included within the agreement and evaluate which deliverables represent units of accounting. Analyzing the arrangement to identify deliverables requires the use of judgment, and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation. The deliverables under our collaborative agreements include (i) the license to our rHuPH20 technology, (ii) at the collaborator's request, research and development services which are reimbursed at contractually determined rates, and (iii) at the collaborator's request, supply of bulk rHuPH20 which is reimbursed at our cost plus a margin. A delivered item is considered a separate unit of accounting when the delivered item has value to the collaborator on a standalone basis based on the consideration of the relevant facts and circumstances for each arrangement. Factors considered in this determination include the research capabilities of the collaborator and the availability of research expertise in this field in the general marketplace.

Arrangement consideration is allocated at the inception of the agreement to all identified units of accounting based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence ("VSOE") of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists, we use our best estimate of the selling price for the deliverable. The amount of allocable arrangement consideration is limited to amounts that are not contingent upon the delivery of additional items or meeting other specified performance conditions. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units. Changes in the allocation of the sales price between delivered and undelivered elements can impact revenue recognition but do not change the total revenue recognized under any agreement.

Nonrefundable upfront license fee payments are recognized upon delivery of the license if facts and circumstances dictate that the license has standalone value from the undelivered items, which generally include research and development services and the manufacture of bulk rHuPH20, the relative selling price allocation of the license is equal to or exceeds the upfront license fee, persuasive evidence of an arrangement exists, our price to the collaborator is fixed or determinable and collectibility is reasonably assured. Upfront license fee payments are deferred if facts and circumstances dictate that the license does not have standalone value. The determination of the length of the period over which to defer revenue is subject to judgment and estimation and can have an impact on the amount of revenue recognized in a given period.

The terms of our collaborative agreements provide for milestone payments upon achievement of certain development and regulatory events and/or specified sales volumes of commercialized products by the collaborator. We account for milestone payments in accordance with the provisions of ASU No. 2010-17, Revenue Recognition - Milestone Method. We recognize consideration that is contingent upon the achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone is substantive in its entirety. A milestone is considered substantive when it meets all of the following criteria:

The consideration is commensurate with either the entity's performance to achieve the milestone or the enhancement

1. of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone,

2. The consideration relates solely to past performance, and

3. The consideration is reasonable relative to all of the deliverables and payment terms within the arrangement.

A milestone is defined as an event (i) that can only be achieved based in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is



substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (iii) that would result in additional payments being due to the vendor.

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Reimbursements of research and development services are recognized as revenue during the period in which the services are performed as long as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the related receivable is reasonably assured. Revenue from the manufacture of bulk rHuPH20 is recognized when the materials have met all specifications required for the collaborator's acceptance and title and risk of loss have transferred to the collaborator. We do not directly control when any collaborator will request research and development services or supply of bulk rHuPH20; therefore, we cannot predict when we will recognize revenues in connection with research and development services and supply of bulk rHuPH20.

Since we receive royalty reports 60 days after quarter end, royalty revenue from sales of collaboration products by our collaborators will be recognized in the quarter following the quarter in which the corresponding sales occurred.

The collaborative agreements typically provide the collaborators the right to terminate such agreement in whole or on a product-by-product or target-by-target basis at any time upon 30 to 90 days prior written notice to us. There are no performance, cancellation, termination or refund provisions in any of our collaborative agreements that contain material financial consequences to us.

Refer to Note 4, "Collaborative Agreements," for further discussion on our collaborative arrangements.

#### Cost of Product Sales

Cost of product sales consists primarily of raw materials, third-party manufacturing costs, fill and finish costs, freight costs, internal costs and manufacturing overhead associated with the production of Hylenex recombinant and bulk rHuPH20 for use in approved collaboration products. Cost of product sales also consists of the write-down of excess, dated and obsolete inventories and the write-off of any inventories that do not meet certain product specifications, if any.

Prior to European marketing approvals of Roche's collaboration products Herceptin SC in August 2013 and MabThera SC in March 2014, and Baxter's collaboration product HYQVIA in May 2013, all costs related to the manufacturing of bulk rHuPH20 for these collaboration products were charged to research and development expenses in the periods such costs were incurred. Therefore, cost of product sales of these bulk rHuPH20 for the year ended December 31, 2013 was materially reduced due to the exclusion of the manufacturing costs that were charged to research and development expenses in the periods prior to receiving marketing approvals.

For the year ended December 31, 2014, cost of product sales of bulk rHuPH20 excluded \$1.0 million in manufacturing costs, of which \$0.9 million and \$0.1 million were charged to research and development expenses in the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2013, cost of product sales of bulk rHuPH20 excluded \$10.0 million in manufacturing costs, of which \$9.0 million and \$1.0 million were charged to research and development expenses in the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, bulk rHuPH20 inventory for collaboration products which were sold in 2014 excluded \$1.0 million in manufacturing costs. There was no bulk rHuPH20 for HyQvia on hand as of December 31, 2014 and 2013.

#### Research and Development Expenses

Research and development expenses include salaries and benefits, facilities and other overhead expenses, external clinical trial expenses, research related manufacturing services, contract services and other outside expenses. Research and development expenses are charged to operations as incurred when these expenditures relate to our research and development efforts and have no alternative future uses. After receiving approval from the FDA or comparable regulatory agencies in foreign countries for a product, costs related to purchases and manufacturing of bulk rHuPH20 for product are capitalized as inventory. The manufacturing costs of bulk rHuPH20 for the collaboration products, Herceptin SC, MabThera SC and HYQVIA, incurred after the receipt of the European marketing approvals are capitalized as inventory.

In accordance with certain research and development agreements, we are obligated to make certain upfront payments upon execution of the agreement. Advance payments, including nonrefundable amounts, for goods or services that will be used or rendered for future research and development activities are deferred and capitalized. Such amounts will be recognized as an expense as the related goods are delivered or the related services are performed or such time when we do not expect the goods to be delivered or services to be performed.

Milestone payments that we make in connection with in-licensed technology for a particular research and development project that have no alternative future uses (in other research and development projects or otherwise) and

therefore no separate economic values are expensed as research and development costs at the time the costs are incurred. We have no in-licensed technologies that have alternative future uses in research and development projects or otherwise.

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#### Clinical Trial Expenses

Payments in connection with our clinical trials are often made under contracts with multiple contract research organizations that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Generally, these agreements set forth the scope of work to be performed at a fixed fee, unit price or on a time and materials basis. Payments under these contracts depend on factors such as the successful enrollment or treatment of patients or the completion of other clinical trial milestones.

Expenses related to clinical trials are accrued based on our estimates and/or representations from service providers regarding work performed, including actual level of patient enrollment, completion of patient studies and progress of the clinical trials. Other incidental costs related to patient enrollment or treatment are accrued when reasonably certain. If the contracted amounts are modified (for instance, as a result of changes in the clinical trial protocol or scope of work to be performed), we modify our accruals accordingly on a prospective basis. Revisions in the scope of a contract are charged to expense in the period in which the facts that give rise to the revision become reasonably certain. Historically, we have had no material changes in clinical trial expense accruals that had a material impact on our consolidated results of operations or financial position.

#### Share-Based Compensation

We record compensation expense associated with stock options and other share-based awards in accordance with the authoritative guidance for stock-based compensation. The cost of employee services received in exchange for an award of an equity instrument is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense on a straight-line basis, net of estimated forfeitures, over the requisite service period of the award. Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Share-based compensation expense for an award with a performance condition is recognized when the achievement of such performance condition is determined to be probable. If the outcome of such performance condition is not determined to be probable or is not met, no compensation expense is recognized and any previously recognized compensation expense is reversed. As share-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be approximately 10% for employees for the years ended December 31, 2014, 2013 and 2012 based on our historical experience for the years then ended.

#### Income Taxes

We provide for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts of existing assets and liabilities at each year end and their respective tax bases and are measured using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Deferred tax assets and other tax benefits are recorded when it is more likely than not that the position will be sustained upon audit. Valuation allowances have been established to reduce our net deferred tax assets to zero, as we believe that it is more likely than not that such assets will not be realized.

#### Net Loss Per Share

Basic net loss per common share is computed by dividing loss for the period by the weighted average number of common shares outstanding during the period, without consideration for common stock equivalents. Stock options, unvested restricted stock awards ("RSAs") and unvested restricted stock units ("RSUs") are considered common stock equivalents and are only included in the calculation of diluted earnings per common share when their effect is dilutive. Because of our net loss, outstanding stock options, outstanding RSUs and unvested RSAs totaling approximately 8,405,903, 8,070,141 and 7,444,333 were excluded from the calculation of diluted net loss per common share for the years ended December 31, 2014, 2013 and 2012, respectively, because their effect was anti-dilutive. Since the performance conditions for performance restricted stock units ("PRsUs") were not satisfied at December 31, 2014, such securities are excluded from potentially dilutive securities.



## Segment Information

We operate our business in one segment, which includes all activities related to the research, development and commercialization of our proprietary enzymes. This segment also includes revenues and expenses related to (i) research and development and API manufacturing activities conducted under our collaborative agreements with third parties and (ii) product sales of Hylenex recombinant. The chief operating decision-maker reviews the operating results on an aggregate basis and manages the operations as a single operating segment.

### Pending Adoption of Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements — Going Concern (“ASU 2014-15”). The provisions of ASU 2014-15 provide that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). ASU 2014-15 is effective for the annual reporting period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The adoption of ASU 2014-15 will not have a material impact on our consolidated financial position or results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 will eliminate transaction-specific and industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. ASU 2014-09 also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early application is not permitted. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). The provisions of ASU 2013-11 require entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. The guidance will eliminate the diversity in practice in the presentation of unrecognized tax benefits but will not alter the way in which entities assess deferred tax assets for realizability. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The amendments should be applied prospectively to unrecognized tax benefits that exist at the effective date. Early adoption is permitted. The adoption of ASU 2013-11 will not have a material impact on our consolidated financial position or results of operations.

## 3. Marketable Securities

Available-for-sale marketable securities consisted of the following (in thousands):

| Description               | December 31, 2014 |                              |                               |                         |
|---------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
|                           | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
| Corporate debt securities | \$74,275          | \$2                          | \$(43)                        | ) \$74,234              |
| Description               | December 31, 2013 |                              |                               |                         |
|                           | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
| Corporate debt securities | \$35,130          | \$20                         | \$(3)                         | ) \$35,147              |
| Commercial paper          | 5,999             | —                            | —                             | 5,999                   |
| Certificate of deposit    | 3,000             | —                            | —                             | 3,000                   |
|                           | \$44,129          | \$20                         | \$(3)                         | ) \$44,146              |

As of December 31, 2014, all of our available-for-sale marketable securities were scheduled to mature within the next twelve months. There were \$57.3 million of available-for-sale securities that matured during the year ended December 31, 2014. There were no realized gains or losses for the year ended December 31, 2014 and 2013. As of December 31, 2014, we had 14 available-for-sale marketable securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. Based on our review of these marketable securities, we believe we had no other-than-temporary impairments on these securities as of December 31, 2014 because we do not intend to sell these securities and it is not more likely than not that we will be required to sell these securities before the recovery of their amortized cost basis.

## 4. Collaborative Agreements

## Roche Collaboration

In December 2006, we and Roche entered into a license and collaborative agreement under which Roche obtained a worldwide, exclusive license to develop and commercialize product combinations of our patented rHuPH20 enzyme and up to thirteen Roche target compounds (the "Roche Collaboration"). As of December 31, 2014, Roche had elected a total of five exclusive targets and retains the option to develop and commercialize rHuPH20 with three additional targets, provided that Roche continues to pay annual maintenance fees to us. Roche received European marketing approval in August 2013 for its collaboration product, Herceptin SC, for the treatment of patients with HER2-positive breast cancer and launched Herceptin SC in the European Union ("EU") in September 2013.

In March 2014, Roche received European marketing approval for its collaboration product, MabThera SC, for the treatment of patients with common forms of non-Hodgkin lymphoma ("NHL"). In June 2014, Roche launched MabThera SC in the EU which triggered a \$5.0 million sales-based payment to us for the achievement of the first commercial sale pursuant to the terms of the Roche Collaboration.

Roche assumes all development, manufacturing, clinical, regulatory, sales and marketing costs under the Roche Collaboration, while we are responsible for the supply of bulk rHuPH20. We are entitled to receive reimbursements for providing research and development services and bulk rHuPH20 to Roche at its request.

Under the terms of the Roche Collaboration, Roche pays us a royalty on each product commercialized under the agreement consisting of a mid-single digit percent of the net sales of such product. Unless terminated earlier in accordance with its terms, the Roche Collaboration continues in effect until the expiration of Roche's obligation to pay royalties. Roche has the obligation to pay royalties with respect to each product in each country, during the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country.

As of December 31, 2014, we have received \$78.3 million, excluding royalties and reimbursements for providing research and development services and supplying bulk rHuPH20, from Roche. The amounts received consisted of the \$20.0 million upfront license fee payment for the application of rHuPH20 to the initial three Roche exclusive targets, \$22.3 million in connection with Roche's election of two additional exclusive targets and annual license maintenance fees for the right to designate the remaining targets as exclusive targets, \$13.0 million in clinical development milestone payments, \$8.0 million in regulatory milestone payments and \$15.0 million in sales-based payments. Due to our continuing involvement obligations (for example, support activities associated with rHuPH20), revenues from the upfront payment, exclusive designation fees, annual license maintenance fees and sales-based payment were deferred and are being amortized over the remaining term of the Roche Collaboration.

For the years ended December 31, 2014, 2013 and 2012, we recognized approximately \$8.1 million, \$4.6 million, and \$2.0 million, respectively, of Roche deferred revenues as revenues under collaborative agreements. In addition, for the years ended December 31, 2014, 2013 and 2012, we recognized approximately \$2.0 million, \$1.3 million and \$1.4 million, respectively, of deferred bulk rHuPH20 sales revenue as product sales revenue. Total Roche deferred revenues was approximately \$42.7 million and \$41.6 million as of December 31, 2014 and 2013, respectively. For the year ended December 31, 2012, we recognized \$8.0 million as revenues under collaborative agreements in accordance with the Milestone Method related to the achievement of certain regulatory milestones pursuant to the terms of the Roche Collaboration. No such revenues were recognized for the years ended December 31, 2014 and 2013.

#### Gammagard Collaboration

In September 2007, we entered into a license and collaborative agreement with Baxter, under which Baxter obtained a worldwide, exclusive license to develop and commercialize HYQVIA, a combination of Baxter's current product GAMMAGARD LIQUID™ and our patented rHuPH20 enzyme (the "Baxter Collaboration"). In May 2013, the European Commission granted Baxter marketing authorization in all EU Member States for the use of HYQVIA (solution for subcutaneous use), a combination of GAMMAGARD LIQUID and rHuPH20 in dual vial units, as replacement therapy for adult patients with primary and secondary immunodeficiencies. Baxter launched HYQVIA in the first EU country in July 2013 and in additional EU countries in the second half of 2013 and in 2014. The FDA approved HYQVIA for treatment of adult patients with primary immunodeficiency in September 2014. In October 2014, Baxter announced the launch and first shipments of HYQVIA in the U.S.

The Baxter Collaboration is applicable to both kit and formulation combinations. Baxter assumes all development, manufacturing, clinical, regulatory, sales and marketing costs under the Baxter Collaboration, while we are responsible for the supply of bulk rHuPH20. We perform research and development activities and supply bulk rHuPH20 at the request of Baxter, and are reimbursed by Baxter under the terms of the Baxter Collaboration. In addition, Baxter has certain product development and commercialization obligations in major markets identified in the Baxter Collaboration.

Unless terminated earlier in accordance with its terms, the Baxter Collaboration continues in effect until the expiration of Baxter's obligation to pay royalties. Baxter has the obligation to pay royalties, with respect to each product in each country, during the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country.



As of December 31, 2014, we have received \$17.0 million under the Gammagard Collaboration, excluding royalties. The amounts received consisted of the \$10.0 million upfront license fee payment, a \$3.0 million regulatory milestone payment and a \$4.0 million sales-based payment. Baxter pays us a royalty on HYQVIA consisting of a mid-single digit percent of the net sales of such product. Due to our continuing involvement obligations (for example, support activities associated with rHuPH20 enzyme), the upfront and sales-based payments were deferred and are being recognized over the term of the Baxter Collaboration. We recognized revenue from the upfront and sales-based payments in the amount of approximately \$0.8 million, \$0.6 million and \$0.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. Deferred revenue relating to the upfront and sales-based payments under the Gammagard Collaboration was approximately \$10.9 million and \$10.5 million as of December 31, 2014 and 2013, respectively.

#### Other Collaborations

In December 2014, we and Janssen entered into a collaboration and license agreement, under which Janssen has the worldwide license to develop and commercialize products combining our patented rHuPH20 enzyme with Janssen proprietary biologics directed at up to five targets (the "Janssen Collaboration"). Targets may be selected on an exclusive or non-exclusive basis. As of December 31, 2014, we have received a \$15.0 million payment for the license fee of one specified exclusive target and the right to elect four additional targets in the future upon payment of additional fees. Unless terminated earlier in accordance with its terms, the Janssen Collaboration continues in effect until the later of (i) expiration of the last to expire of the valid claims of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers a product developed under the collaboration, and (ii) expiration of the last to expire royalty term for a product developed under the collaboration. The royalty term of a product developed under the Janssen Collaboration, with respect to each country, consists of the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country. Janssen may terminate the agreement prior to expiration for any reason in its entirety or on a target-by-target basis upon 90 days prior written notice to us. Upon any such termination, the license granted to Janssen (in total or with respect to the terminated target, as applicable) will terminate, provided, however, that in the event of expiration of the agreement, the licenses granted will become perpetual, non-exclusive and fully paid-up.

In December 2012, we and Pfizer entered into a collaboration and license agreement, under which Pfizer has the worldwide license to develop and commercialize products combining our patented rHuPH20 enzyme with Pfizer proprietary biologics directed at up to six targets (the "Pfizer Collaboration"). Targets may be selected on an exclusive or non-exclusive basis. As of December 31, 2014, we have received \$11.0 million in upfront and license fee payments for the licenses to four specified exclusive targets and two additional targets which Pfizer has the right to elect in the future upon payment of additional fees. Unless terminated earlier in accordance with its terms, the Pfizer Collaboration continues in effect until the later of (i) expiration of the last to expire of the valid claims of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers a product developed under the collaboration, and (ii) expiration of the last to expire royalty term for a product developed under the collaboration. The royalty term of a product developed under the Pfizer Collaboration, with respect to each country, consists of the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country. Pfizer may terminate the agreement prior to expiration for any reason in its entirety or on a target-by-target basis upon 30 days prior written notice to us. Upon any such termination, the license granted to Pfizer (in total or with respect to the terminated target, as applicable) will terminate, provided, however, that in the event of expiration of the agreement, the licenses granted will become perpetual, non-exclusive and fully paid-up.

At the inception of the Pfizer and Janssen arrangements, we identified the deliverables in each arrangement to include the license, research and development services and supply of bulk rHuPH20. We have determined that the license, research and development services and supply of bulk rHuPH20 individually represent separate units of accounting, because each deliverable has standalone value. The estimated selling prices for these units of accounting were determined based on market conditions, the terms of comparable collaborative arrangements for similar technology in the pharmaceutical and biotech industry and entity-specific factors such as the terms of our previous collaborative agreements, our pricing practices and pricing objectives. The arrangement consideration was allocated to the deliverables based on the relative selling price method and the nature of the research and development services to be performed for the collaborator.

The amount allocable to the delivered unit or units of accounting is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the noncontingent amount). As such, we excluded from the allocable arrangement consideration the milestone payments, annual exclusivity fees and royalties regardless of the probability of receipt. Based on the results of our analysis, we allocated the \$11.0 million license fees from Pfizer and the \$15.0 million upfront license fee from Janssen to the license fee deliverable under each of the arrangements. We determined that the upfront payments were earned upon the granting of the worldwide, exclusive right to our technology to the collaborators in these arrangements. As a result, we recognized the \$11.0 million license fees under the Pfizer Collaboration and the \$15.0 million upfront license fee under the Janssen Collaboration as revenues under collaborative agreements in the period when such license fees were earned. There were no revenues recognized related to milestone payments under these collaborations for the years ended December 31, 2014, 2013 and 2012.

The collaborators are each solely responsible for the development, manufacturing and marketing of any products resulting from their respective collaborations. We are entitled to receive payments for research and development services and supply of rHuPH20 API to these collaborators if requested by such collaborator. We recognize amounts allocated to research and development services as revenues under collaborative agreements as the related services are performed. We recognize amounts allocated to the sales of API as revenues under collaborative agreements when such API has met all required specifications by the collaborators and the related title and risk of loss and damages have passed to the collaborators. We cannot predict the timing of delivery of research and development services and API as they are at the collaborators' requests.

In May 2011 and June 2011, we entered into collaboration and license agreements with ViroPharma Incorporated and Intrexon Corporation, respectively. These collaboration agreements were terminated effective May 2014.

Pursuant to the terms of our collaboration agreements with Roche and Pfizer, certain future payments meet the definition of a milestone in accordance with the Milestone Method of Accounting. We are entitled to receive additional milestone payments for the successful development of the elected targets in the aggregate of up to approximately \$55.0 million upon achievement of specified clinical development milestone events and up to approximately \$12.0 million upon achievement of specified regulatory milestone events in connection with specified regulatory filings and receipt of marketing approvals.

#### 5. Certain Balance Sheet Items

Accounts receivable, net consisted of the following (in thousands):

|  | December 31,<br>2014 | December 31,<br>2013 |
|--|----------------------|----------------------|
| Accounts receivable from product sales to collaborators          | \$6,361              | \$4,495              |
| Accounts receivable from other product sales                     | 2,133                | 1,505                |
| Accounts receivable from revenues under collaborative agreements | 1,266                | 3,707                |
| Subtotal   | 9,760                | 9,707                |
| Allowance for distribution fees and discounts                    | (611                 | ) (610               |
| Total accounts receivable, net                                   | \$9,149              | \$9,097              |



Inventories consisted of the following (in thousands):

|                   | December 31,<br>2014 | December 31,<br>2013 |
|-------------------|----------------------|----------------------|
| Raw materials     | \$553                | \$1,137              |
| Work-in-process   | 5,207                | 4,280                |
| Finished goods    | 646                  | 753                  |
| Total inventories | \$6,406              | \$6,170              |

Prepaid expenses and other assets consisted of the following (in thousands):

|  | December 31,<br>2014 | December 31,<br>2013 |
|--|----------------------|----------------------|
| Prepaid manufacturing expenses                   | \$6,339              | \$5,884              |
| Prepaid research and development expenses        | 2,380                | 3,522                |
| Other prepaid expenses                           | 1,094                | 1,339                |
| Other assets                                     | 1,535                | 356                  |
| Total prepaid expenses and other assets          | 11,348               | 11,101               |
| Less long-term portion                           | 1,205                | 2,676                |
| Total prepaid expenses and other assets, current | \$10,143             | \$8,425              |

Property and equipment, net consisted of the following (in thousands):

|   | December 31,<br>2014 | December 31,<br>2013 |
|---|----------------------|----------------------|
| Research equipment                        | \$8,474              | \$7,714              |
| Computer and office equipment             | 2,178                | 1,949                |
| Leasehold improvements                    | 1,518                | 1,408                |
| Subtotal                                  | 12,170               | 11,071               |
| Accumulated depreciation and amortization | (9,219)              | (7,649)              |
| Property and equipment, net               | \$2,951              | \$3,422              |

Depreciation and amortization expense was approximately \$1.8 million, \$1.2 million and \$1.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Accrued expenses consisted of the following (in thousands):

|   | December 31,<br>2014 | December 31,<br>2013 |
|---|----------------------|----------------------|
| Accrued compensation and payroll taxes                              | \$5,923              | \$7,075              |
| Accrued outsourced research and development expenses                | 4,383                | 3,377                |
| Accrued outsourced manufacturing expenses                           | 2,112                | 3,233                |
| Other accrued expenses  | 2,023                | 1,235                |
| Total accrued expenses  | 14,441               | 14,920               |
| Less long-term accrued outsourced research and development expenses | 480                  | 551                  |
| Total accrued expenses, current                                     | \$13,961             | \$14,369             |

Long-term accrued outsourced research and development is included in other long-term liabilities in the consolidated balance sheets.

Deferred revenue consisted of the following (in thousands):

|  | December 31,<br>2014 | December 31,<br>2013 |
|--|----------------------|----------------------|
| Collaborative agreements                 | \$53,479             | \$51,185             |
| Product sales                            | 1,155                | 1,958                |
| Total deferred revenue                   | 54,634               | 53,143               |
| Less current portion                     | 7,367                | 7,398                |
| Deferred revenue, net of current portion | \$47,267             | \$45,745             |

#### 6. Long-Term Debt, Net

In December 2013, we entered into an Amended and Restated Loan and Security Agreement (the “Loan Agreement”) with Oxford Finance LLC (“Oxford”) and Silicon Valley Bank (“SVB”) (collectively, the “Lenders”), amending and restating in its entirety our original loan agreement with the Lenders, dated December 2012. The Loan Agreement provided for an additional \$20 million principal amount of new term loan, bringing the total term loan balance to \$50 million. The proceeds are to be used for working capital and general business requirements. The amended term loan facility matures on January 1, 2018.

In January 2015, we entered into the second amendment to the Loan Agreement with the Lenders, amending and restating the loan repayment schedules of the Loan Agreement. The amended and restated term loan repayment schedule provides for interest only payments through January 2016, followed by consecutive equal monthly payments of principal and interest in arrears starting in February 2016 and continuing through the previously established maturity date of January 2018. Consistent with the original loan, the Loan Agreement provides for a 7.55% interest rate on the term loan and a final interest payment equal to 8.5% of the original principal amount, or \$4.25 million, which is due when the term loan becomes due or upon the prepayment of the facility. We have the option to prepay the outstanding balance of the term loan in full, subject to a prepayment fee of 1% to 3% depending upon when the prepayment occurs.

In connection with the term loan, the debt offering costs have been recorded as a debt discount in our consolidated balance sheets which, together with the final payment and fixed interest rate payments, are being amortized and recorded as interest expense throughout the life of the term loan using the effective interest rate method.

The amended term loan is secured by substantially all of the assets of the Company and our subsidiary, Halozyyme, Inc., except that the collateral does not include any equity interests in Halozyyme, Inc., any intellectual property (including all licensing, collaboration and similar agreements relating thereto), and certain other excluded assets. The Loan Agreement contains customary representations, warranties and covenants by us, which covenants limit our ability to convey, sell, lease, transfer, assign or otherwise dispose of certain of our assets; engage in any business other than the businesses currently engaged in by us or reasonably related thereto; liquidate or dissolve; make certain management changes; undergo certain change of control events; create, incur, assume, or be liable with respect to certain indebtedness; grant certain liens; pay dividends and make certain other restricted payments; make certain investments; make payments on any subordinated debt; and enter into transactions with any of our affiliates outside of the ordinary course of business or permit our subsidiaries to do the same. In addition, subject to certain exceptions, we are required to maintain with SVB our primary deposit accounts, securities accounts and commodities, and to do the same for our domestic subsidiary.

The Loan Agreement also contains customary indemnification obligations and customary events of default, including, among other things, our failure to fulfill certain of our obligations under the Loan Agreement and the occurrence of a material adverse change which is defined as a material adverse change in our business, operations, or condition (financial or otherwise), a material impairment of the prospect of repayment of any portion of the loan, or a material impairment in the perfection or priority of lender's lien in the collateral or in the value of such collateral. In the event of default by us under the Loan Agreement, the Lenders would



be entitled to exercise their remedies thereunder, including the right to accelerate the debt, upon which we may be required to repay all amounts then outstanding under the Loan Agreement, which could harm our financial condition.

As of December 31, 2014, we were in compliance with all material covenants under the Loan Agreement and there was no material adverse change in our business, operations or financial condition.

Future maturities and interest payments under the term loan as of December 31, 2014, are as follows (in thousands):

|  |          |   |
|--|----------|---|
| 2015   | \$3,775  |   |
| 2016   | 25,077   |   |
| 2017   | 27,013   |   |
| 2018   | 6,501    |   |
| 2019   | —        |   |
| Total minimum payments   | 62,366   |   |
| Less amount representing interest                                  | (12,366) | ) |
| Gross balance of long-term debt                                    | 50,000   |   |
| Less unamortized debt discount                                     | (140)    | ) |
| Present value of long-term debt                                    | 49,860   |   |
| Less current portion of long-term debt                             | —        |   |
| Long-term debt, less current portion and unamortized debt discount | \$49,860 |   |

Interest expense, including amortization of debt discount, related to the long-term debt for the years ended December 31, 2014 and 2013 was approximately \$5.6 million and \$3.3 million, respectively.

#### 7. Stockholders' Equity (Deficit)

During 2014, we issued an aggregate of 1,432,206 shares of common stock, in connection with the exercises of stock options for cash in the aggregate amount of approximately \$7.8 million. In addition, we issued 789,345 shares of common stock, net of RSAs canceled, in connection with the grants of RSAs and 120,043 shares of common stock upon vesting of certain RSUs. The RSU holders surrendered 74,325 RSUs to pay for minimum withholding taxes totaling approximately \$1.0 million.

In February 2014, we completed an underwritten public offering and issued 8,846,153 shares of common stock, including 1,153,846 shares sold pursuant to the full exercise of an over-allotment option granted to the underwriters. All of the shares were offered at a public offering price of \$13.00 per share, generating approximately \$107.7 million in net proceeds.

During 2013, we issued an aggregate of 1,270,362 shares of common stock in connection with the exercises of stock options for cash in the aggregate amount of approximately \$5.5 million. In addition, we issued 461,729 shares of common stock, net of RSAs canceled, in connection with the grants of RSAs and 92,201 shares of common stock upon vesting of certain RSUs. The RSU holders surrendered 61,923 RSUs to pay for minimum withholding taxes totaling approximately \$0.4 million.

In February 2012, we completed an underwritten public offering and issued 7,820,000 shares of common stock, including 1,020,000 shares sold pursuant to the full exercise of an over-allotment option granted to the underwriter. All of the shares were offered at a public offering price of \$10.61 per share, generating approximately \$81.5 million in net proceeds. Of the 7,820,000 shares of common stock sold, Randal J. Kirk, a member of our board of directors, through his affiliates, purchased 1,360,000 shares of common stock in this offering at the public offering price of \$10.61 per share for a total of approximately \$14.4 million.

### 8. Equity Incentive Plans

We currently grant stock options, restricted stock awards and restricted stock units under the Amended and Restated 2011 Stock Plan ("2011 Stock Plan"). In May 2013, our stockholders approved the Amended and Restated 2011 Stock Plan, which provides for the grant of up to 12.5 million shares of common stock (subject to certain limitations as described in the Amended and Restated 2011 Stock Plan) to selected employees, consultants and non-employee members of our Board of Directors ("Outside Directors") as stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards and performance awards. The 2011 Stock Plan was approved by the stockholders. Awards are subject to terms and conditions established by the Compensation Committee of our Board of Directors. During the year ended December 31, 2014, we granted share-based awards under the 2011 Stock Plan. At December 31, 2014, 7,247,452 shares were subject to outstanding awards and 4,681,212 shares were available for future grants of share-based awards. At the present time, management intends to issue new common shares upon the exercise of stock options, issuance of restricted stock awards and settlement of restricted stock units.

Total share-based compensation expense related to share-based awards was comprised of the following (in thousands):

|                                     | Year Ended December 31, |         |         |
|-------------------------------------|-------------------------|---------|---------|
|                                     | 2014                    | 2013    | 2012    |
| Research and development            | \$7,939                 | \$4,476 | \$4,191 |
| Selling, general and administrative | 7,335                   | 5,062   | 4,158   |
| Share-based compensation expense    | \$15,274                | \$9,538 | \$8,349 |

Total unrecognized estimated compensation expense by type of award and the weighted-average remaining requisite service period over which such expense is expected to be recognized (in thousands, unless otherwise noted):

|               | December 31, 2014    |   |
|---------------|----------------------|---|
|               | Unrecognized Expense | Remaining Weighted-Average Recognition Period (years) |
| Stock options | \$15,675             | 2.7   |
| RSAs          | \$7,153              | 1.6   |
| RSUs          | \$3,991              | 2.6   |

Cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) are classified as cash inflows provided by financing activities and cash outflows used in operating activities. Due to our net loss position, no tax benefits have been recognized in the consolidated statements of cash flows.

**Stock Options.** Options granted under the Plans must have an exercise price equal to at least 100% of the fair market value of our common stock on the date of grant. The options will generally have a maximum contractual term of ten years and vest at the rate of one-fourth of the shares on the first anniversary of the date of grant and 1/48 of the shares monthly thereafter. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plans).



A summary of our stock option award activity as of and for the years ended December 31, 2014, 2013 and 2012 is as follows:

|  | Shares<br>Underlying<br>Stock Options | Weighted<br>Average Exercise<br>Price per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value |         |
|--|---------------------------------------|---|---|---------------------------------|---------|
| Outstanding at January 1, 2012                   | 5,869,784                             | \$5.82  |   |                                 |         |
| Granted  | 1,215,442                             | \$9.90  |   |                                 |         |
| Exercised  | (444,637 )                            | \$4.56  |   |                                 |         |
| Canceled/forfeited                               | (260,722 )                            | \$8.34  |   |                                 |         |
| Outstanding at December 31, 2012                 | 6,379,867                             | \$6.59  |   |                                 |         |
| Granted  | 1,806,392                             | \$7.14  |   |                                 |         |
| Exercised  | (1,270,362 )                          | \$4.34  |   |                                 |         |
| Canceled/forfeited                               | (214,982 )                            | \$8.18  |   |                                 |         |
| Outstanding at December 31, 2013                 | 6,700,915                             | \$7.11  |   |                                 |         |
| Granted  | 2,271,143                             | \$13.02   |   |                                 |         |
| Exercised  | (1,432,206 )                          | \$5.43  |   |                                 |         |
| Canceled/forfeited                               | (1,185,960 )                          | \$9.39  |   |                                 |         |
| Outstanding at December 31, 2014                 | 6,353,892                             | \$9.18  | 6.5   | \$11.2                          | million |
| Vested and expected to vest at December 31, 2014 | 6,025,883                             | \$9.05  | 6.4   | \$10.9                          | million |
| Exercisable at December 31, 2014                 | 3,944,408                             | \$7.36  | 4.6   | \$8.9                           | million |

The weighted average grant-date fair values of options granted during the years ended December 31, 2014, 2013 and 2012 were \$8.13 per share, \$4.40 per share and \$5.63 per share, respectively. The intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was approximately \$8.1 million, \$8.3 million and \$2.9 million, respectively. Cash received from stock option exercises for the years ended December 31, 2014, 2013 and 2012 was approximately \$7.8 million, \$5.5 million and \$2.0 million, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model ("Black-Scholes model") that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of our common stock. The expected term of options granted is based on analyses of historical employee termination rates and option exercises. The risk-free interest rate is based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The dividend yield assumption is based on the expectation of no future dividend payments by us. Assumptions used in the Black-Scholes model were as follows:

|                                  | Year Ended December 31, |            |            |
|----------------------------------|-------------------------|------------|------------|
|                                  | 2014                    | 2013       | 2012       |
| Expected volatility              | 66.6-71.8%              | 70.1-72.5% | 64.0-69.2% |
| Average expected term (in years) | 5.7                     | 5.7        | 5.6        |
| Risk-free interest rate          | 1.73-2.04%              | 0.86-2.00% | 0.80-1.15% |
| Expected dividend yield          | 0                       | % 0        | % 0        |

Restricted Stock Awards. Restricted stock awards are grants that entitle the holder to acquire shares of our common stock at zero or a fixed price, which is typically nominal. The shares covered by a restricted stock award cannot be sold, pledged, or otherwise disposed of until the award vests and any unvested shares may be reacquired by us for the original purchase price following the awardee's termination of service. The restricted stock awards will generally vest at the rate of one-fourth of the shares on each anniversary of the date of grant. Annual grants of restricted stock awards to Outside Directors typically vest in full the first day the awardee may trade our stock in compliance with our insider trading policy following the date immediately preceding the first annual meeting of stockholders following the grant date.

The following table summarizes our restricted stock award activity during the years ended December 31, 2014, 2013 and 2012:

|                               | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|---------------------|---|
| Unvested at January 1, 2012   | 347,883             | \$6.51  |
| Granted                       | 380,158             | \$10.29   |
| Vested                        | (339,758 )          | \$6.51  |
| Forfeited                     | (5,963 )            | \$10.81   |
| Unvested at December 31, 2012 | 382,320             | \$10.21   |
| Granted                       | 476,096             | \$6.88  |
| Vested                        | (211,178 )          | \$8.78  |
| Forfeited                     | (14,367 )           | \$8.17  |
| Unvested at December 31, 2013 | 632,871             | \$8.23  |
| Granted                       | 1,055,122           | \$11.15   |
| Vested                        | (263,765 )          | \$8.33  |
| Forfeited                     | (265,777 )          | \$10.86   |
| Unvested at December 31, 2014 | 1,158,451           | \$10.26   |

The fair value of the restricted stock awards is based on the market value of our common stock on the date of grant.

The total grant-date fair value of restricted stock awards vested during the years ended December 31, 2014, 2013 and 2012 was approximately \$2.2 million, \$1.9 million and \$2.2 million, respectively. We recognized approximately \$5.4 million, \$2.2 million and \$2.1 million of share-based compensation expense related to restricted stock awards for the years ended December 31, 2014, 2013 and 2012, respectively.

Restricted Stock Units. A restricted stock unit is a promise by us to issue a share of our common stock upon vesting of the unit. The restricted stock units will generally vest at the rate of one-fourth of the shares on each anniversary of the date of grant.

The following table summarizes our restricted stock unit activity during the years ended December 31, 2014, 2013 and 2012:

|                                  | Number of Shares | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term (yrs) | Aggregate Intrinsic Value |
|----------------------------------|------------------|--|---|---------------------------|
| Unvested at January 1, 2012      | 148,000          |  |   |                           |
| Granted                          | 682,146          | \$10.61                                |   |                           |
| Vested                           | (128,000 )       |  |   |                           |
| Forfeited                        | (20,000 )        |  |   |                           |
| Outstanding at December 31, 2012 | 682,146          |  |   |                           |
| Granted                          | 323,700          | \$6.69                                 |   |                           |
| Vested                           | (154,124 )       |  |   |                           |
| Forfeited                        | (115,367 )       |  |   |                           |
| Outstanding at December 31, 2013 | 736,355          | \$9.06                                 |   |                           |
| Granted                          | 305,535          | \$13.71                                |   |                           |
| Vested                           | (194,368 )       | \$9.12                                 |   |                           |
| Forfeited                        | (385,200 )       | \$8.84                                 |   |                           |
| Outstanding at December 31, 2014 | 462,322          | \$11.12                                | 2.6   | \$4.5 million             |

The estimated fair value of the restricted stock units was based on the market value of our common stock on the date of grant. The total intrinsic value of restricted stock units vested during the years ended December 31, 2014, 2013 and 2012 was approximately \$2.6 million, \$1.1 million and \$0.9 million, respectively. We recognized approximately \$2.0 million, \$1.8 million and \$1.5 million of share-based compensation expense related to the restricted stock units for the years ended December 31, 2014, 2013 and 2012, respectively.

In July 2014, we granted 540,742 PRSUs to our executive officers, which are not included in the table above. For the year ended December 31, 2014, there were 109,504 PRSUs forfeited. As of December 31, 2014, the aggregate intrinsic value of the 431,238 PRSUs outstanding was \$4.2 million. For the year ended December 31, 2014, there was no expense recognized related to the PRSUs, as the achievement of the performance conditions was not determined to be probable.

## 9. Commitments and Contingencies

### Operating Leases

Our administrative offices and research facilities are located in San Diego, California. We lease an aggregate of approximately 76,000 square feet of office and research space in four buildings. The leases commenced in June 2011 and November 2013 and continue through January 2018. The leases are subject to approximately 2.5% to 3.0% annual increases throughout the terms of the leases. We also pay a pro rata share of operating costs, insurance costs, utilities and real property taxes.

We received incentives under the leases, including tenant improvement allowances and reduced or free rent, which the unamortized deferred rent balances associated with these incentives was \$1.0 million as of December 31, 2014 and 2013.

Additionally, we lease certain office equipment under operating leases. Total rent expense was approximately \$1.9 million, \$1.7 million and \$1.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Approximate annual future minimum operating lease payments as of December 31, 2014 are as follows (in thousands):

| Year:                        | Operating Leases |
|------------------------------|------------------|
| 2015                         | \$2,133          |
| 2016                         | 2,142            |
| 2017                         | 2,162            |
| 2018                         | 82               |
| Total minimum lease payments | \$6,519          |
| Other Commitments            |                  |

In order to scale up the production of bulk rHuPH20 and to identify another manufacturer that would help meet anticipated production obligations arising from our proprietary programs and our collaborations, we entered into a Technology Transfer Agreement and a Clinical Supply Agreement with Cook Pharmica LLC (“Cook”). The technology transfer was completed in 2008. In 2009, multiple batches of bulk rHuPH20 were produced to support planned future clinical studies.

In March 2010, we entered into a Commercial Supply Agreement with Cook (the “Cook Commercial Supply Agreement”). Under the terms of the Cook Commercial Supply Agreement, Cook will manufacture certain batches of bulk rHuPH20 that will be used for commercial supply of certain products and product candidates. Under the terms of the Cook Commercial Supply Agreement, we are committed to certain minimum annual purchases of bulk rHuPH20 equal to four quarters of forecasted supply. At December 31, 2014, we had no minimum purchase obligation in connection with the Cook Commercial Supply Agreement.

In March 2010, we amended our Commercial Supply Agreement (the “March 2010 Avid Amendment”) with Avid Bioservices, Inc. (“Avid”) which was originally entered into in February 2005 and amended in December 2006. Under the terms of the March 2010 Avid Amendment, we are committed to certain minimum annual purchases of bulk rHuPH20 equal to three quarters of forecasted supply. In addition, Avid has the right to manufacture and supply a certain percentage of bulk rHuPH20 that will be used in Hylenex recombinant. At December 31, 2014, we had no minimum purchase obligations with this agreement.

In March 2010, we entered into a second Commercial Supply Agreement with Avid (the “Avid Commercial Supply Agreement”). Under the terms of the Avid Commercial Supply Agreement, we are committed to certain minimum annual purchases of bulk rHuPH20 equal to three quarters of forecasted supply. In addition, Avid has the right to manufacture and supply a certain percentage of bulk rHuPH20 that will be used in the collaboration products. At December 31, 2014, we had a \$9.6 million minimum purchase obligation in connection with this agreement.

In June 2011, we entered into a commercial manufacturing and supply agreement with Baxter, under which Baxter provides the final fill and finishing steps in the production process of Hylenex recombinant for a limited period of time. The initial term of the agreement with Baxter was extended to December 31, 2015, subject to further extensions in accordance with the terms and conditions of the agreement. At December 31, 2014, we had a minimum purchase obligation in connection with this agreement of approximately \$1.7 million.

In June 2011, we entered into a services agreement with another third party manufacturer for the technology transfer and manufacture of Hylenex recombinant. At December 31, 2014, we had a \$1.2 million minimum purchase obligation in connection with this agreement.

#### Contingencies

We have entered into an in-licensing agreement with a research organization, which is cancelable at our option with 90 days written notice. Under the terms of this agreement, we have received license to know-how and technology claimed, in certain patents or patent applications. We are required to pay fees, milestones and/or royalties on future sales of products employing the technology or falling under claims of a patent, and some of the agreements require minimum royalty payments. We continually reassess the value of the license agreement. If the in-licensed and research candidate is successfully developed, we may be required to pay milestone payments of approximately \$9.3 million over the life of this agreement in addition to royalties on sales of the affected products. Due to the uncertainties of the development process, the timing and probability of the milestone and royalty payments cannot be

accurately estimated.

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### Legal Contingencies

From time to time, we may be involved in disputes, including litigation, relating to claims arising out of operations in the normal course of our business. Any of these claims could subject us to costly legal expenses and, while we generally believe that we have adequate insurance to cover many different types of liabilities, our insurance carriers may deny coverage or our policy limits may be inadequate to fully satisfy any damage awards or settlements. If this were to happen, the payment of any such awards could have a material adverse effect on our consolidated results of operations and financial position. Additionally, any such claims, whether or not successful, could damage our reputation and business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our consolidated results of operations or financial position.

### 10. Income Taxes

Significant components of our net deferred tax assets at December 31, 2014 and 2013 are shown below (in thousands). A valuation allowance of \$179.0 million and \$162.0 million has been established to offset the net deferred tax assets as of December 31, 2014 and 2013, respectively, as realization of such assets is uncertain.

|   | December 31, |            |
|---|--------------|------------|
|   | 2014         | 2013       |
| Deferred tax assets:                        |              |            |
| Net operating loss carryforwards            | \$120,707    | \$116,572  |
| Deferred revenue                            | 18,034       | 13,324     |
| Research and development credits            | 34,146       | 28,867     |
| Share-based compensation                    | 5,381        | 2,495      |
| Other, net                                  | 891          | 853        |
|   | 179,159      | 162,111    |
| Valuation allowance for deferred tax assets | (178,965 )   | (161,968 ) |
| Deferred tax assets, net of valuation       | 194          | 143        |
| Deferred tax liabilities:                   |              |            |
| Depreciation                                | (194 )       | (143 )     |
| Net deferred tax liabilities                | (194 )       | (143 )     |
| Net deferred tax assets                     | \$—          | \$—        |

The provision for income taxes on earnings subject to income taxes differs from the statutory federal income tax rate due to the following (in thousands):

|  | December 31, |             |             |
|--|--------------|-------------|-------------|
|  | 2014         | 2013        | 2012        |
| Federal income tax at 34%  | \$(23,247 )  | \$(28,383 ) | \$(18,208 ) |
| State income tax, net of federal benefit                           | (1,761 )     | (1,745 )    | (3,023 )    |
| Increase in valuation allowance                                    | 16,998       | 33,525      | 20,954      |
| Foreign income subject to tax at other than federal statutory rate | 12,747       | —           | —           |
| Tax effect on non-deductible expenses and other                    | 540          | 5,219       | 1,293       |
| Research and development credits                                   | (5,277 )     | (8,616 )    | (1,016 )    |
|  | \$—          | \$—         | \$—         |

At December 31, 2014, we had federal and California tax net operating loss carryforwards of approximately \$341.9 million and \$307.9 million, respectively. Included in these amounts are federal and California net operating losses of approximately \$34.3 million and \$32.8 million, respectively, attributable to stock option, RSA and RSU deductions for which the tax benefit will be credited to equity when realized. The federal and California tax loss carryforwards will begin to expire in 2018 and 2015, respectively, unless previously utilized.

At December 31, 2014, we also had federal and California research and development tax credit carryforwards of approximately \$26.1 million and \$12.2 million, respectively. The federal research and development tax credits will begin to expire in 2024 unless previously utilized. The California research and development tax credits will carryforward indefinitely until utilized.

Pursuant to Internal Revenue Code Section 382, the annual use of the net operating loss carryforwards and research and development tax credits could be limited by any greater than 50% ownership change during any three-year testing period. As a result of any such ownership change, portions of our net operating loss carryforwards and research and development tax credits are subject to annual limitations. We recently completed an updated Section 382 analysis regarding the limitation of the net operating losses and research and development credits as of June 30, 2014. Based upon the analysis, we determined that ownership changes occurred in prior years. However, the annual limitations on net operating loss and research and development tax credit carryforwards will not have a material impact on the future utilization of such carryforwards.

At December 31, 2014 and 2013, our unrecognized income tax benefits and uncertain tax positions were not material and would not, if recognized, affect the effective tax rate. Interest and/or penalties related to uncertain income tax positions are recognized by us as a component of income tax expense. For the years ended December 31, 2014, 2013 and 2012, we recognized no interest or penalties.

We do not provide for U.S. income taxes on the undistributed earnings of our foreign subsidiary as it is our intention to utilize those earnings in the foreign operations for an indefinite period of time. At December 31, 2014, there were no undistributed earnings in the foreign subsidiary.

We are subject to taxation in the U.S. and in various state and foreign jurisdictions. Our tax years for 1998 and forward are subject to examination by the U.S. and California tax authorities due to the carryforward of unutilized net operating losses and research and development credits.

#### 11. Employee Savings Plan

We have an employee savings plan pursuant to Section 401(k) of the Internal Revenue Code. All employees are eligible to participate, provided they meet the requirements of the plan. We are not required to make matching contributions under the plan. However, we voluntarily contributed to the plan approximately \$0.7 million, \$0.6 million and \$0.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

#### 12. Related Party Transactions

In June 2011, we and Intrexon entered into the Intrexon Collaboration, under which Intrexon obtained a worldwide exclusive license for the use of rHuPH20 enzyme in the development of a subcutaneous injectable formulation of Intrexon's recombinant human alpha 1-antitrypsin (rHuA1AT). The Intrexon Collaboration was terminated in May 2014. Intrexon's chief executive officer and chairman of its board of directors, Randal J. Kirk, is also a member of our Board of Directors. The collaborative arrangement with Intrexon was reviewed and approved by our Board of Directors in accordance with our related party transaction policy. For the years ended December 31, 2014, 2013 and 2012, we recognized zero, \$1.0 million and \$1.0 million, respectively, in revenue under collaborative agreements pursuant to the terms of the Intrexon Collaboration. See Note 4, Collaborative Agreements, for a further discussion of the Intrexon Collaboration.

### 13. Restructuring Expense

In November 2014, we completed a corporate reorganization to focus our resources on advancing our PEGPH20 oncology proprietary program and Enhance collaborations. This reorganization resulted in a reduction in the workforce of approximately 13%, primarily in research and development.

We recorded approximately \$1.2 million of severance pay and benefits expense in connection with the reorganization, of which \$1.1 million and \$0.1 million was included in research and development expense and selling, general and administrative expense, respectively, in the consolidated statement of operations for the year ended December 31, 2014. No other restructuring charges were incurred. We made cash payments of \$0.7 million related to the restructuring expense for the year ended December 31, 2014. As of December 31, 2014, the restructuring liability was approximately \$0.5 million and was included in current accrued expenses. The balance is expected to be paid in 2015.

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## 14. Summary of Unaudited Quarterly Financial Information

The following is a summary of our unaudited quarterly results for the years ended December 31, 2014 and 2013 (in thousands):

| 2014 (Unaudited):   | Quarter Ended |            |               |              |
|---|---------------|------------|---------------|--------------|
|   | March 31,     | June 30,   | September 30, | December 31, |
| Total revenues <sup>(1)</sup>                                 | \$11,966      | \$18,385   | \$14,606      | \$30,377     |
| Gross profit on product sales                                 | \$3,048       | \$3,570    | \$4,476       | \$3,997      |
| Total operating expenses                                      | \$37,185      | \$33,325   | \$33,632      | \$34,228     |
| Net loss  | \$(26,548)    | \$(16,273) | \$(20,280)    | \$(5,274)    |
| Net loss per share, basic and diluted                         | \$(0.22)      | \$(0.13)   | \$(0.16)      | \$(0.04)     |
| Shares used in computing basic and diluted net loss per share | 118,943       | 123,710    | 124,041       | 124,272      |

| 2013 (Unaudited):   | Quarter Ended |            |               |              |
|---|---------------|------------|---------------|--------------|
|   | March 31,     | June 30,   | September 30, | December 31, |
| Total revenues  | \$11,833      | \$14,454   | \$16,013      | \$12,499     |
| Gross profit on product sales <sup>(2)</sup>                  | \$769         | \$1,816    | \$9,342       | \$6,266      |
| Total operating expenses                                      | \$30,330      | \$36,574   | \$34,507      | \$33,822     |
| Net loss  | \$(19,289)    | \$(22,912) | \$(19,292)    | \$(21,986)   |
| Net loss per share, basic and diluted                         | \$(0.17)      | \$(0.20)   | \$(0.17)      | \$(0.19)     |
| Shares used in computing basic and diluted net loss per share | 112,417       | 112,486    | 112,765       | 113,550      |

(1) Revenues for the quarter ended December 31, 2014 included \$15.0 million in revenue under collaborative agreements from the Janssen Collaboration.

Gross profit on product sales for the quarters ended June 30, 2013, September 30, 2013 and December 31, 2013 excluded manufacturing costs related to the product sales of bulk rHuPH20 for Herceptin SC and HyQvia in the (2) amounts of \$0.9 million, \$6.5 million and \$2.6 million, respectively. Such costs were incurred prior to European marketing approvals for Herceptin SC and HyQvia, and therefore, they were charged to research and development expenses in the periods the costs were incurred.

## HALOZYME THERAPEUTICS, INC.

Schedule II  
 Valuation and Qualifying Accounts  
 (in thousands)

|   | Balance at<br>Beginning of<br>Period | Additions | Deductions | Balance at<br>End of Period |
|---|--------------------------------------|-----------|------------|-----------------------------|
| For the year ended December 31, 2014<br>Accounts receivable allowances <sup>(1)</sup> | \$ 610                               | \$ 4,518  | \$(4,519 ) | \$ 609                      |
| For the year ended December 31, 2013<br>Accounts receivable allowances <sup>(1)</sup> | \$ 178                               | \$ 2,979  | \$(2,547 ) | \$ 610                      |
| For the year ended December 31, 2012<br>Accounts receivable allowances <sup>(1)</sup> | \$ 15                                | \$ 771    | \$(608 )   | \$ 178                      |

<sup>(1)</sup> Allowances are for chargebacks, prompt payment discounts and distribution fees related to Hylenex recombinant product sales.

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Exhibit Index

| Exhibit Number | Exhibit Title  | Incorporated by Reference |            |                     |
|----------------|--|---------------------------|------------|---------------------|
|                |  | Filed Herewith            | Form       | File No. Date Filed |
| 2.1            | Agreement and Plan of Merger, dated November 14, 2007, by and between the Registrant and the Registrant's predecessor Nevada corporation | 8-K                       | 001-32335  | 11/20/2007          |
| 3.1            | Composite Certification of Incorporation   | 10-Q                      | 001-32335  | 8/7/2013            |
| 3.2            | Certificate of Designation, Preferences and Rights of the terms of the Series A Preferred Stock  | 8-K                       | 001-32335  | 11/20/2007          |
| 3.3            | Bylaws, as amended   | 8-K                       | 001-32335  | 12/12/2011          |
| 4.1            | Amended Rights Agreement between Corporate Stock Transfer, as rights agent, and Registrant, dated November 12, 2007                      | 10-K                      | 001-32335  | 3/14/2008           |
| 10.1           | License Agreement between University of Connecticut and Registrant, dated November 15, 2002  | SB-2                      | 333-114776 | 4/23/2004           |
| 10.2           | First Amendment to the License Agreement between University of Connecticut and Registrant, dated January 9, 2006                         | 8-K                       | 001-32335  | 1/12/2006           |
| 10.3*          | Commercial Supply Agreement with Avid Bioservices, Inc. and Registrant, dated February 16, 2005  | 8-K                       | 001-32335  | 2/22/2005           |
| 10.4*          | First Amendment to the Commercial Supply Agreement between Avid Bioservices, Inc. and Registrant, dated December 15, 2006                | 8-K                       | 001-32335  | 12/21/2006          |
| 10.5*          | Clinical Supply Agreement between Cook Pharmica, LLC and Registrant, dated August 15, 2008   | 10-Q                      | 001-32335  | 11/7/2008           |
| 10.6#          | 2004 Stock Plan and Form of Option Agreement thereunder  | SB-2                      | 333-114776 | 7/23/2004           |
| 10.7#          | Halozyme Therapeutics, Inc. 2005 Outside Directors' Stock Plan   | 8-K                       | 001-32335  | 7/6/2005            |
| 10.8#          | Form of Stock Option Agreement (2005 Outside Directors' Stock Plan)  | 10-Q                      | 001-32335  | 8/8/2006            |
| 10.9#          | Form of Restricted Stock Agreement (2005 Outside Directors' Stock Plan)  | 10-Q                      | 001-32335  | 8/8/2006            |
| 10.10#         | Halozyme Therapeutics, Inc. 2006 Stock Plan  | 8-K                       | 001-32335  | 3/24/2006           |

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|        |  |      |           |           |
|--------|--|------|-----------|-----------|
| 10.11# | Form of Stock Option Agreement (2006 Stock Plan)     | 10-Q | 001-32335 | 8/8/2006  |
| 10.12# | Form of Restricted Stock Agreement (2006 Stock Plan) | 10-Q | 001-32335 | 8/8/2006  |
| 10.13# | Halozyme Therapeutics, Inc. 2008 Stock Plan          | 8-K  | 001-32335 | 3/19/2008 |

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| Exhibit Number | Exhibit Title  | Incorporated by Reference |        |                      |
|----------------|--|---------------------------|--------|----------------------|
|                |  | Filed Herewith            | Form   | File No. Date Filed  |
| 10.14#         | Form of Stock Option Agreement (2008 Stock Plan)   |                           | 10-Q   | 001-32335 8/7/2009   |
| 10.15#         | Form of Restricted Stock Agreement (2008 Stock Plan)   |                           | 10-Q   | 001-32335 8/7/2009   |
| 10.16#         | Halozyme Therapeutics, Inc. 2008 Outside Directors' Stock Plan   |                           | 8-K    | 001-32335 3/19/2008  |
| 10.17#         | Form of Restricted Stock Agreement (2008 Outside Directors' Stock Plan)  |                           | 10-Q   | 001-32335 8/7/2009   |
| 10.18#         | Halozyme Therapeutics, Inc. Amended and Restated 2011 Stock Plan   |                           | DEF14A | 001-32335 4/11/2013  |
| 10.19#         | Form of Stock Option Agreement (2011 Stock Plan)   |                           | 8-K    | 001-32335 6/16/2011  |
| 10.20#         | Form of Stock Option Agreement for Executive Officers (2011 Stock Plan)  |                           | 8-K    | 001-32335 6/16/2011  |
| 10.21#         | Form of Restricted Stock Units Agreement (2011 Stock Plan)   |                           | 8-K    | 001-32335 6/16/2011  |
| 10.22#         | Form of Restricted Stock Award Agreement (2011 Stock Plan)   |                           | 8-K    | 001-32335 6/16/2011  |
| 10.23#         | Form of Indemnity Agreement for Directors and Executive Officers   |                           | 8-K    | 001-32335 12/20/2007 |
| 10.24#         | Severance Policy   |                           | 10-Q   | 001-32335 5/9/2008   |
| 10.25#         | Form of Change In Control Agreement with CEO   |                           | 10-K   | 001-32335 2/28/2013  |
| 10.26#         | Form of Change In Control Agreement with CEO   |                           | 10-K   | 001-32335 2/28/2014  |
| 10.27#         | Form of Amended and Restated Change In Control Agreement with Officer  |                           | 10-K   | 001-32335 2/28/2013  |
| 10.28          | Separation Agreement and General Release of All Claims between Halozyme, Inc. and James Shaffer  |                           | 10-Q   | 001-32335 5/12/2014  |
| 10.29*         | Enhance Technology License and Collaboration Agreement between Baxter Healthcare Corporation, Baxter Healthcare S.A. and Registrant, dated September 7, 2007 |                           | 8-K    | 001-32335 9/12/2007  |
| 10.30*         | License and Collaboration Agreement between F. Hoffmann-La Roche Ltd, Hoffmann-La Roche Inc. and Registrant dated December 5, 2006                           |                           | 8-K/A  | 001-32335 12/15/2006 |

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|       |   |      |           |           |
|-------|---|------|-----------|-----------|
| 10.31 | Standard Industrial Net Lease (11388 Sorrento Valley Road), effective as of July 26, 2007 | 8-K  | 001-32335 | 7/31/2007 |
| 10.32 | Amended and Restated Lease (11388 Sorrento Valley Road), effective as of June 10, 2011    | 8-K  | 001-32335 | 6/16/2011 |
| 10.33 | Lease (11436 Sorrento Valley Road), effective as of April 2013                            | 10-K | 001-32335 | 2/28/2013 |

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| Exhibit Number | Exhibit Title   | Filed Herewith | Incorporated by Reference |                     |
|----------------|---|----------------|---------------------------|---------------------|
|                |   |                | Form                      | File No. Date Filed |
| 10.34          | First modification to Lease (11436 Sorrento Valley Road)  |                | 10-Q                      | 001-32335 5/8/2013  |
| 10.35          | Loan and Security Agreement and Disbursement Letter, dated December 28, 2012  |                | 10-K                      | 001-32335 2/28/2013 |
| 10.36          | First Amendment to Loan and Security Agreement and Disbursement Letter, dated February 5, 2013  |                | 10-K                      | 001-32335 2/28/2013 |
| 10.37          | Amended and Restated Loan and Security Agreement, dated December 27, 2013   |                | 10-K                      | 001-32335 2/28/2014 |
| 10.38          | Consent and First Amendment to Amended and Restated Loan and Security Agreement, dated June 10, 2014  |                | 10-Q                      | 001-32335 8/11/2014 |
| 10.39          | Second Amendment to Amended and Restated Loan and Security Agreement, dated January 23, 2015  | X              |                           |                     |
| 21.1           | Subsidiaries of Registrant  | X              |                           |                     |
| 23.1           | Consent of Independent Registered Public Accounting Firm  | X              |                           |                     |
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended                                  | X              |                           |                     |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended                                  | X              |                           |                     |
| 32             | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X              |                           |                     |
| 101.INS        | XBRL Instance Document  | X              |                           |                     |
| 101.SCH        | XBRL Taxonomy Extension Schema  | X              |                           |                     |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase  | X              |                           |                     |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase   | X              |                           |                     |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase  | X              |                           |                     |
| 101.PRE        | XBRL Taxonomy Presentation Linkbase   | X              |                           |                     |

- \* Confidential treatment has been granted for certain portions of this exhibit. These portions have been omitted from this agreement and have been filed separately with the Securities and Exchange Commission.
- # Indicates management contract or compensatory plan or arrangement.